



Unitronics (1989) (R"G) Ltd

Quarterly Report as of March 31, 2011

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This report contains forward-looking information within the meaning of Section 32A of the Israeli Securities Law, 5728-1968, including forecasts, assessments, estimates, expectations or other information pertaining to future events or issues, the realization of which is uncertain and not solely under the Company's control, if at all. This information is identified as such where it is used in this report. Although such information is based on data available to the Company as of the date of the report, and reflects the Company's intents and assessments as of such date, the actual occurrences and/or results may differ substantially from those presented in the report or implied therefrom as projected or anticipated, since their realization is subject, inter alia, to uncertainties and other factors beyond the Company's control as set out in this report below.

CHAPTER A – PREFACE

1. General

Company Name: Unitronics (1989) (R"G) Ltd. (hereinafter: the "**Company**" or "**Unitronics**")

Company No.: 520044199

Address: Unitronics Building, Arava Street, Airport City, P.O.B. 300, Israel 70100

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2. Description of the Company and Its Business Environment

Unitronics engages, through its Products Department, in the design, development, production, marketing and sale of industrial automation products, mainly programmable logic controllers (hereinafter: "**PLCs**"). PLCs are computer-based electronic products (hardware and software), used in the command and control of machines performing automatic tasks, such as production systems and automatic systems for industrial storage, retrieval and logistics. The Company also engages, through its Systems Department, in the design, construction and maintenance services in the framework of projects for automation, computerization and integration of computerized production and/or logistics systems, mainly automated warehouses, automated distribution centers and automated parking facilities.

The Company's PLCs are distributed by over one hundred and forty distributors (and a wholly owned US subsidiary) in approximately fifty countries throughout Europe, Asia, America and Africa. The services of the Systems Department are provided mainly to customers in Israel, and in a few cases, also outside Israel.

The Company operates from facilities located in "Unitronics Building", an office and industrial building which is leased, in part, by the Company.

Unitronics Building is situated at Airport City next to the David Ben-Gurion Airport, and it houses the Company's offices and all its other facilities in Israel.

As of May 2004 the Company's shares are traded on the Tel Aviv Stock Exchange, and as of September 1999 on the Belgian Stock Exchange (first on the EuroNM Stock Exchange and starting from the year 2000, on the EuroNext Stock Exchange in Brussels, Belgium).

3. Main Events in the Period of the Report and up to Its Publication

Adoption of internal procedures relating to reporting requirements

On February 2, 2011 the Board of Directors of the Company adopted internal procedures designed to expand the existing internal controls in place in connection with the Company's compliance with its reporting requirements, pursuant to the law.

Winning a bid for the construction of an Automated Warehouse

On February 3, 2011 the Company was informed that it has won a bid for the construction of an Automated Warehouse. The project is estimated at ILS 30 million and is expected to end in the second half of 2012 (for details, see immediate report concerning an event or matter deviating from the corporation's ordinary business dated May 6, 2011, reference number 2011-01-038982). On March 30, 2011 the Company received an agreement signed by the other party, which was signed on March 23, 2011, regarding this project (for details, see immediate report concerning an event or matter deviating from the corporation's ordinary business dated March 30, 2011, reference number 2011-01-100404).

2011 Prospectus

On February 22, 2011, the Company published a shelf prospectus, which was amended on March 17, 2011 ("2011 Prospectus").

Pursuant to the shelf prospectus, the public may be offered securities of the Company as set forth below:

- Up to 10,000,000 Registered Ordinary Shares, of NIS 0.02 par value each of the Company;
- Up to 5 series of Registered Debentures (Series 3 to 7), with each of these debenture series at a total par value of up to NIS 100,000,000, payable (Principal) in one installment or in several equal or unequal installments, which will not exceed four quarterly payments per annum;
- Up to 5 series of Registered Debentures (Series 8 to 12), with each of these debenture series at a total par value of up to NIS 50,000,000, payable (Principal) in one installment or in several equal or unequal installments, which will not exceed four quarterly payments per annum; the Convertible Debentures of series 8 to 12 shall be convertible to ordinary shares of NIS 0.02 par value each of the Company, pursuant to the terms of conversion set out in the shelf offering reports;
- Up to 5 series of Warrants (Series 3 to 7), with each of these warrant series including no more than 5,000,000 registered warrants, which are exercisable such that each warrant from each of the series 3 to 7

shall be exercisable into one ordinary share of NIS 0.02 of the Company;

- Up to 6 series of Warrants (Series 8 to 13), with each of these warrant series including no more than 1,000,000 registered warrants, which are exercisable such that each warrant from one of the series 8 to 13 shall be exercisable into NIS 100 par value debentures of series 3 to 7 or 8 to 12 of the Company;

Shelf offering pursuant to a Shelf Prospectus, and the results of issuance of debentures (Series 3)

On March 22, 2011 pursuant to its 2011 Prospectus the Company published a Shelf Offering Report ("Offering Report"), under which the public was offered up to NIS 56,250,000 par value debentures (Series 3) of the Company, which were offered at 100% of their par value, and which are linked (principal and interest) to the Consumer Price Index of February 2011 (published on March 15, 2011). The debentures are repayable (principal) in five (5) equal annual payments, payable on March 23 of each of the years 2013 through 2017. The interest is payable in semi-annual equal payments commencing from September 23, 2011. The total par value of the debentures (Series 3), which the Company can offer at any time, including debentures (Series 3) that were offered under the said Offering Report, shall not exceed NIS 75 million par value. Debentures (Series 3).

The (gross) proceeds in respect of the debentures allotted under the Shelf Offering Report, amounts to NIS 56,442,000 (in total 56,442 debenture units (series 3) were allotted), and the annual interest rate borne by the debentures, as set in the tender, is 5.65%. (For details on the results of the issuance, see Immediate Report regarding issuance results pursuant to a Shelf Offering Report, included herein by way of reference, dated March 24, reference no: 2011-01-090993). The debentures (Series 3) began to trade on the Tel-Aviv Stock Exchange on March 28, 2011.

As part of the Shelf Prospectus, the Company assumed the following liabilities:

- Not to distribute dividend, at a rate exceeding 50% of the annual net income, unless with the consent of the debenture holders.
- Maintain a financial debt to net cap ratio.
- A minimum equity cap is set at a fixed amount.
- Refrain from creating liens, as set forth in section 8 of this report.
- The deposit of an amount equal to the annual interest payment in respect of the debentures in a bank account to guarantee the payment of the current interest on the bond principal, and a pledge over the bank account in favor of the trustee of the debentures (Series 3).
- The Company will not issue additional series of debentures whose average life is shorter than the average life of Series 3 debentures, which are secured by charges that have priority over those provided to secure the Company's liabilities towards the Debenture Holders (Series 3), insofar as they exist.

As of the date of their listing for trading and subject to any law, the Company shall be permitted (but not obligated) at its sole discretion, at any time, to effect an early redemption, in whole or in part, of the principal of the Debentures (Series 3), under certain conditions and restrictions.

The (net) proceeds of the issuance pursuant to the Shelf Offering Report shall be used by the Company for its needs, as they shall be from time to time, including for the financing of the Company's financing activities, as shall be decided by the Board of Directors from time to time.

Upon the occurrence of certain events, the trustee of the debentures (Series 3) shall be required to call for immediate repayment of the debentures. These events include: dissolution order issued against the Company; order for stay of proceedings against the Company; foreclosure on the Company's assets; an action of execution against the Company's assets and/or appointment of a temporary or permanent receiver for the Company's assets, which have not been cancelled and/or removed within 60 days; the winding up (dissolution) or delisting of the Company; the sale of the main assets of the Company; in the event that Mr. Chaim Shani ceases to be a controlling shareholder of the Company, directly or indirectly; in the event of a fundamental breach of the terms of the debentures and the Trust Deed (Series 3), which has not been remedied.

Creation of a lien in favor of the holders of Series 3 Debentures.

In accordance with a certificate of the Registrar of Companies dated April 28, 2011, a pledge over a bank account deposit was registered, to secure the payment of interest pursuant to the terms of the debentures (Series 3). Pursuant to the certificate, the date of registration of the pledge is April 4, 2011. For details see Immediate Report on the Registration of A Pledge for Debenture Holders (Series 3), which is hereby included by way of reference, dated May 5, 2011, reference no: 2011-01-141294.

Buyback plan

On March 27, 2011, the Board of Directors of the Company decided to adopt a new plan for the buyback of the Company's shares, pursuant to which the Board authorized the Company to purchase, from time to time, in the framework of trading on the Tel Aviv Stock Exchange or the Euronext Stock Exchange in Belgium, or directly from related or unrelated parties, shares of the Company for a total sum not exceeding NIS 1.5 million (including expenses related to the buyback, including the fees of consultants and service providers in connection with the buyback). This plan is valid until June 30, 2011. (For details regarding the buyback plan see immediate report of an incident or matter deviating from the corporations ordinary business dated March 27, 2011, reference number 2011-01-094101). Under this plan, until the date of publication of this report 37,658 shares for the total amount of NIS 278 thousand were acquired.

As of the date of publication of this report, the Company has a total of 1,593,897 shares (out of 11,678,504 ordinary shares in the Company's issued share capital). As long as these shares remain under the ownership of the Company, the shares are "dormant shares" as this term is defined in the Companies Law, 1999. For details regarding previous buyback plans adopted by the Company, see immediate reports of an incident or matter deviating from the corporation's ordinary business, which are hereby included by way of reference: a report dated December 7, 2009, reference no: 2009-01-312105; a report dated March 4, 2011, reference no: 2010-01-404196; a report dated May 23, 2010, reference no: 2010-01-489135; a report dated November 11, 2010, reference no: 2010-01-676662.

Amendment of lease agreement with a controlling shareholder

On March 27, 2011 the audit committee and board of directors of the Company decided to authorize the signing of an amendment of a lease agreement dated August 1, 2009 (“**the amendment**” and “**the lease agreement**” respectively) between the Company and a company controlled by Mr. Haim Shani and Mrs. Bareket Shani (“**the lessor**”). Mr. Haim Shani is the controlling shareholder of the Company, and serves as chairman of the board of directors and CEO of the Company, and Mrs. Bareket Shani is Mr. Shani’s wife and serves as director and VP of Human Resources in the Company.

Pursuant to the amendment, the Company will lease from the lessor additional 170 square meters and 10 parking places (“**the additional space**”), in addition to the 936 square meters and 20 parking places, which were leased by the Company in Unitronix House in Airport City under the lease agreement, at identical terms. (For details see immediate report of an incident or matter deviating from the corporation’s ordinary business, which is hereby included by way of reference, dated May 21, 2009, reference no: 2009-01-117399).

The terms of the lease agreement shall apply to the additional space as follows: rental fees of NIS 65 per sq. meter per month, linked to the Consumer Price index (in addition to management fees of NIS 5 per sq. meter per month to Airport City, and management fees of NIS 9.5 per sq. meter per month to the Company’s subsidiary, Unitronix House Management and Holdings (2003), in connection with the management of Unitronix House) and NIS 2,500 for the parking space.

The total amount of rental fees per month, which the Company is to pay the lessor in respect of the additional space is NIS 13,500 (except for management fees to Airport City and to the subsidiary and rent in respect of the parking places). The rental fees for the remaining lease period (until July 31, 2012) for the additional space amounts to NIS 203,000.

For additional details, see immediate report concerning a transaction with a director which does not require the general meeting’s approval, dated March 27, 2011, reference number 2011-01-094152).

An update on signatories in the Company

On March 27, 2011, the Board of Directors of the Company decided to update signatory rights in the Company. For details see immediate report of an incident or matter deviating from the corporations ordinary business dated March 2011, 2011, reference number 2011-01-094209).

Winning a bid for the construction of an automated parking lot in California

On May 9, 2011 the Company was informed that the city of West Hollywood in California, USA (hereinafter: “**the customer**”) announced on its website that the Company won a bid for the construction of an automated parking lot for 200 vehicles, for the customer (hereinafter - “**the project**”). The Company has not yet received formal confirmation by the customer that it has won the project, and its execution by the Company is subject on the signing of a final and binding agreement.

The project, which is expected to commence construction in 2012, is estimated at \$2.6 million (about NIS 9 million), an amount that is not considered material for the Company, but the Company's penetration into the Western US market may have a significant impact on its operations in this area. Payment of the consideration will be done upon successful completion of milestones in the project, of which \$840,000 will be spread over a period of 10 years, during which maintenance and support services will be provided.

The Company shall recognize in its financial statements income from the project in accordance with the completion rate method, which is determined on the basis of completion of engineering stages of the work in the project. The project is expected to be finished in the second half of 2013.

As security for the fulfillment of its obligations, the Company has undertaken to furnish bank guarantees and also agreed to a predetermined compensation in certain cases.

For additional details see immediate report of an incident or matter deviating from the corporations ordinary business dated March 11, 2011, reference number 2011-01-145434).

Amendment of employment agreements of the CEO and Vice President - results of the general meeting

On March 27, 2011, the audit committee and board of directors of the Company, subject to the approval of the general meeting of shareholders of the Company, to amend each of the employment agreements of Mr. Haim Shani and Mrs. Shani, since the monthly wages of Mr. and Mrs. Shani prior to the proposed amendment, were fixed in January 1999, when the dollar's rate was NIS 4.15. Since then their salary has not been updated, with the exception of voluntary pay cuts in 2003 and in 2009: as follows:

- The wages of Mr. and Mrs. Shani will be in shekels and not in dollars as stipulated in existing employment agreements, and will be translated into New Israel Shekels, based on the NIS 4.00/US dollar exchange rate, such that commencing from the date of approval of the general meeting, Mr. Shani's wages will be NIS 60,000 and Mrs. Shani's wages will be NIS 30,000.
- The wages of Mr. and Mrs. Shani will be linked to the Consumer Price Index, such that as of January 2012, and each year, an amount equal to the percentage of change in the past year's CPI will be added to their wages.

All the other conditions of the employment agreements of Mr. Haim Shani and Mrs. Bareket Shani will continue to apply with no change.

On May 12, 2011 the general meeting of shareholders of the Company approved the amendment of the agreements, as set forth above (for details see immediate report on the results of the general meeting, dated March 12, 2011, reference number 2011-01-146499).

Legal Proceedings

Dispute with Sammy Gharb

In January 2006 the Company filed through its legal advisers in the U.S. a claim in the U.S. Federal Court against a private individual, Mr. Sami Gharb (hereinafter: "the defendant" or "Gharb"), who had approached the Company and several distributors of the Company in the U.S. and in Europe claiming that they were infringing a registered patent of his, by marketing the Company's products. In the claim the Company petitioned the court to declare that the defendant's registered patent in the U.S. is invalid, that Unitronics' actions do not infringe the defendant's intellectual property rights, and that the defendant deliberately interfered in the Company's contractual relations with its customers and distributors.

On September 25, 2007, the court ruled that Unitronics had not violated the defendant's patent the subject of the claim. The defendant's appeals in connection with this claim were rejected.

On April 22, 2007, before the above proceeding came to an end, Gharb's aforementioned patent expired due to failure to make payments in respect thereof.

On October 28, 2010, Gharb filed an application with the District Court which was classified as a "complaint" against Hoboken City Hall in the State of New Jersey, and which mentioned the Company, the subsidiary, Unitronix Inc. and others. Although this claim is vague, it seems that Gharb is claiming infringement of the patent which had already expired. As of the date of the Prospectus, no statement of claim has been filed by the Company or its subsidiary. The Company estimates that this lawsuit does not pose any real risk to the Company. However, since Gharb's patent expired on April 22, 2007, his claim for damages will be limited to infringements allegedly committed in the period between October 2004 and April 2007 (based on a limitation period of 6 years).

Dispute with Robotic Parking

During 2006 Hoboken City Hall in New Jersey (hereinafter – "Hoboken City Hall") hired the Company's services for the repair and maintenance and rendering operational of an automated parking lot in the city (hereinafter – "the parking lot"), which was built and operated by Robotic Parking Systems Inc. (hereinafter – "Robotic"). During the performance of the works by the Company, Robotic filed a claim against Hoboken City Hall and against the Company, inter alia, for violating patent and intellectual property rights and causing breach of contract.

Mutual withdrawal of existing and/or future claims and actions in connection with the dispute that is the object of the aforementioned proceedings, without payment of any damages whatsoever. The settlement agreement was signed by the parties on July 17, 2007 and was granted the status of a verdict by the US court on July 20, 2007.

In addition, on July 21, 2009, the court in New Jersey authorized the Company to present its position in the framework of an lawsuit filed by Robotic against Hoboken City Hall, solely in connection with the

presence of protected trade secrets of the Company in the possession of Hoboken City Hall. On October 30, 2009, the Company filed an application for an injunction against Robotic in order to prevent the latter's access to the Company's protected intellectual property and trade secrets, and an injunction as stated was granted, in part, on January 19, 2010. The Company and Robotic individually appealed the partial nature of the injunction, and on March 23, 2010, these appeals were rejected. The Company appealed the said ruling once again and its appeal was rejected. At this stage, the Company estimates that there is no imminent risk that its protected trade secrets will be exposed.

On July 16, 2009, the Company instituted proceedings in the State of New Jersey, USA, against Robotic, in a lawsuit for the granting of an injunction and compensation for damages in respect to breach of an agreement, breach of contract and abuse of legal proceedings, in consequence of Robotic's attempt to obtain information that is the Company's protected intellectual property and is in the possession of Hoboken City Hall. The Company's petition was rejected on June 18, 2010, and it subsequently filed another appeal.

On January 7, 2010 the Company submitted an application to add Mr. Constantine Hag as a defendant in the case against Robotic and to add a defamatory allegation to the claim on the part of Robotic and Mr. Hag. Its request in these matters was not accepted and the Company plans to include the said decision in the aforesaid appeal.

The rulings in the above appeals have been postponed pending the completion of arbitration proceeding between the parties under the court's supervision, which were held on December 20, 2010. As part of negotiations for a compromise, which were held on December 20, 2010, in connection with the above proceeding and other proceedings as set forth below regarding Robotics and Hoboken, the parties were unable to reach agreements. On December 22, 2010 the Company submitted a status report with the appeals court, in which it requested an oral hearing in the appeal. A date for a hearing has not yet been scheduled.

At this stage, the Company is unable to evaluate the chances of these petitions and lawsuits.

Dispute with Hoboken City Hall in New Jersey

According to the terms of the agreements between the Company and Hoboken City Hall, with regard to the parking lot, Hoboken City Hall undertook, inter alia, to indemnify Unitronics in respect to any damage incurred thereby in consequence of Robotic's lawsuits (see above). On April 22, 2010, the Company brought a lawsuit in the state of New Jersey, USA, against Hoboken City Hall in the state of New Jersey, in respect of breach of an agreement, on the grounds that the Company was not paid legal expenses and other expenses in connection with the legal proceedings between the Company and Robotic, as detailed above. On April 27, 2010 the Statement of Claim was submitted to Hoboken City Hall, and an application to waive summonses was filed.

In response to the claim, Hoboken City Hall made allegations of breach of contract, bad faith and negligent false representation against the Company, which the Company rejected. .

On July 6, 2010, the Company petitioned the court to order Hoboken City Hall to pay legal fees and legal expenses in the amount of US\$ 300,000 in connection with the proceeding against Robotics. The court dismissed the Company's petition, stating that there was more than one way to interpret the clauses of the agreement, which relate to reimbursement of the Company's expenses.

On November 18, 2010 the Company petitioned for an order for discovery of documents by Robotic, which are connected with Hoboken City hall. The court rejected the Company's request, and the Company filed a motion with the court of appeals.

On April 12, 2011, pursuant to the court's instruction, a conference call was held with the participation of a judge in the attempt to reach a settlement agreement, but the parties failed to reach agreements. The judge ordered the parties to furnish all the documents, by April 26, 2011, in accordance with the parties' requests for discovery of documents. Another call regarding the status of the proceedings was scheduled for May 10, 2011.

At this stage, the Company is unable to evaluate the chances of this proceeding.

Chapter B – Board of Directors Report

1. Financial Status

Assets

Total assets according to the consolidated balance sheet of the Company as of March 31, 2011 increased to approximately NIS 180,385 thousand compared to approximately NIS 127,031 thousand as of December 31, 2010. The increase primarily stemmed from an increase in cash and cash equivalents, as detailed below.

An increase was recorded in the cash, cash equivalents and marketable securities items to an aggregate of NIS 79,301 thousand as of March 31, 2011 compared to approximately NIS 36,242 thousand as of December 31, 2010. Most of the increase stems from a positive cash flow as a result of financing activity that includes the issuance of debentures (Series 3), as detailed above, net of cash flows used for operating and investment activities, as explained in section 3 below.

As of March 31, 2011, cash limited in use in the amount of NIS 3,190,000 was recorded as part of the Company's liabilities in the trust deed for Series 3 debentures. As part of the issuance of these debentures, the Company created a pledge over a deposit in the amount of the annual interest payments on the debentures, in favor of the trustee and the holders of these debentures (regarding actions to register the pledge in favor of Series 3 debenture holders and additional details, see Chapter A, section 3 above).

An increase was recorded in the trade receivables and income receivable, which amounted to NIS 19,385,000 as of March 2011, 2010 compared to NIS 14,219,000 as of December 31, 2010. Most of the increase stems from growth in sales in the products segment and accelerated pace of sales in this segment towards the end of the quarter, as part of the ordinary course of business. This change in the pace of sales took place owing to the Company's steps to streamline its stocking procedures and inventory management, as set forth below.

No significant change was recorded in the inventory, and it stood at approximately NIS 28,291,000 as of March 31, 2011 compared to approximately NIS 29,898,000 as of December 31, 2010.

Inventory of work in progress remained essentially unchanged, and it stood at approximately NIS 8,687,000 as of March 31, 2011, compared to approximately NIS 7,461,000 as of December 31, 2010. This reflects progress in the execution of projects on the reporting date only.

No significant change was recorded in fixed assets, which amounted to NIS 21,998,000 as of March 31, 2011, compared to NIS 21,819,000 as of December 31, 2010.

No significant change was recorded in intangible assets, which amounted to NIS 16,893,000 as of March 31, 2011 compared to NIS 15,717,000 as of December 31, 2010. The major component of this item is recognizing Company development assets, with respect to development costs that meet the intangible asset recognition criteria, net of current amortization.

Liabilities

Total short-term credit and current maturities of long-term loans remained essentially unchanged, totaling NIS 10,449,000 as of March 31, 2011, compared to NIS 10,234,000 as of December 31, 2010.

A decrease was recorded in trade payables, which amounted to NIS 22,679,000 as of March 31, 2011, compared to NIS 25,755,000 as of December 31, 2010. This item decreased mainly due to a decline in supplier balances in the systems segment.

Liabilities in respect of embedded derivatives (net), amounted to NIS 1,607 thousand as of March 31, 2011, compared to NIS 3,951,000 as of December 31, 2010. The decrease is largely due to the Euro's appreciation against the shekel in the reported period. The Company has sales contracts denominated in currencies that are not the Company's operating currency. These contracts include embedded derivatives in foreign currency.

Accounts payable and accruals remained virtually unchanged and amounted to NIS 23,376,000 as of March 31, 2011, compared to NIS 23,648,000 as of December 31, 2010.

Non-current liabilities item as of March 31, 2011 totaled NIS 80,873,000, compared to NIS 27,284,000 as of December 31, 2010. Most of the increase stems from the issuance of debentures (Series 3) in the amount of NIS 56,442,000 par value. As stated above, net of issuance expenses in the amount of NIS 2,569,000.

The Company's working capital increased to NIS 82,814 thousand as of March 31, 2011, compared to approximately NIS 25,503 thousand as of December 31, 2010. This increase primarily stemmed from an increase in cash and cash equivalents, as detailed below.

The Company's shareholders' equity increased to approximately NIS 41,255,000 as of March 31, 2011, compared to approximately NIS 36,159,000 as of December 31, 2010. The increase in equity primarily stems from the cumulative net income for the period, net of Company share buybacks, as detailed above.

2. Operating Results

Revenues

Company revenues in the quarter ended March 31, 2011, amounted to approximately NIS 40,367,000, compared to approximately NIS 36,350,000 in the corresponding quarter in 2010 (11% increase). This is mainly due to an increase in revenues from the products segment, as detailed below.

Company revenues from the products segment in the quarter ended March 31, 2011, amounted to approximately NIS 23,947,000, a 40% increase from NIS 17,084,000 in the corresponding quarter in 2010. The growth in revenues from the products segment stems, in the Company's estimation, from an accelerated pace of sales, beyond the levels recorded in the years before the economic crises, which began in the second half of 2008 (for details see section 1.9.27 of the Company's Periodic Report for 2010).

Company revenues from the systems segment in the quarter ended March 31 amounted to approximately NIS 16,331,000, a 15% decrease from the NIS

19,175,000 in the corresponding quarter of 2010. The decrease in revenues from the systems segment stems from changes in the actual rate of progress in the construction of several logistic systems by the Company's systems department, and mainly the planning and construction of a logistics system for a customer in Israel (for details see Section 1.10.9 B of the Company's annual periodic report for 2010).

Revenues from the products segment in the quarter ended March 31, 2011 constituted 59% of total Company revenues in this quarter, whereas revenues from the systems segment in the same period accounted for approximately 40% of total revenues (another 1% stemmed from other revenues). In the corresponding quarter of 2010, revenues from the products segment constituted 47% of total Company revenues in that quarter, whereas revenues from the systems segment constituted 53% of total revenues. Overall for the year 2010, revenues from products accounted for 51% of total revenues, while revenues from systems accounted for 49% of total revenues.

Cost of income and Gross Profit

Gross profit in the quarter ended March 31, 2011 remained virtually unchanged and totaled NIS 11,414,000 (about 28% of the revenues for the period), compared to approximately NIS 11,508,000 in the corresponding quarter of 2010 (about 32% of revenues for the period).

Gross profit margins in the systems segment are lower than profit margins in the products segment (for an explanation on the change in the gross profit margin, see details below).

Development Costs. Net

Net development expenses in the quarter ended March 31, 2011, amounted to NIS 763 thousand, compared to NIS 644,000 in the corresponding quarter of 2010. In the reported period an intangible asset was recognized in respect of development costs in the amount of NIS 1,904,000 compared to NIS 960 thousand in the corresponding quarter, which satisfied the criteria for recognition as an intangible asset. Development costs, which were recognized as an intangible asset in the reporting quarter, and which grew compared to the corresponding period, reflect a continuation and even an increase in technologies development activities, which are required to support the Company's continued operations. During the reporting period, the Company adjusted the its development workforce to meet changes in its operations, as detailed in this report, aimed at addressing its business plans. The Company estimates that in 2011 development expenses in the products segment could grow as detailed in Chapter B (section 2.2.4) of the Periodic Report for 2010¹.

¹ Information regarding the projected development expenses as a percentage of total revenues from the products segment is forward looking information. The main data that constitute the basis for this information are the Company's development plans as set forth in Chapter A (section 1.9.12) of the Periodic Report for 2010, the stages of development at the reporting date, and the need for continued substantial investments in research and development to carry out the company's plans, including staff recruitment. The main factors likely to prevent this forecast from materializing are changes in the Company's development plans arising from reasons beyond its control (such as market needs and consumer preferences, competitors' developments, prices of raw materials and services required by the Company), lack of budget to finance any expenses required for continued development in general or to the extent required by the Company, and possible technological difficulties in connection with the completion of the development stages under these plans.

Selling and Marketing Expenses

Selling and marketing expenses in the quarter ended March 31, 2011 grew to NIS 3,331,000 (about 8% of revenues), compared to NIS 2,311,000 (about 16% of revenues) in the corresponding quarter of 2010. Most of the increase stems from the growth in selling and marketing expenses in the products segment and matches the level of expenses in this segment in previous quarters.

In the Company's estimation, this item is likely to increase in the coming quarters, in line with changes in its operation and in order to address its business plans².

General and Administrative Expenses

Administrative and general expenses in the quarter ended March 31, 2011, amounted to NIS 2,325,000, compared to NIS 1,670,000 in the corresponding quarter of 2010. Most of the growth in this item stems from an adjustment of the expenses needed for the support and management of the growth in the Company's activities.

Operating Profit

A decrease was recorded in operating profit in the quarter ended March 31, 2011, which amounted to NIS 4,995,000 (12.4% of revenues), compared to an operating profit of NIS 6,883,000 in the corresponding quarter of 2010 (18.9% of revenues).

The decrease in operating profit in the reporting period primarily stems from an increase in marketing and selling expenses and in administrative and general expenses, net of the increase in gross profit as detailed above.

Income and Financing expenses

Financing income, net, in the quarter ended March 31, 2011 amounted to NIS 399,000, compared to financing expenses, net, of NIS 8,068,000 thousand in the corresponding period of 2010.

Most of the change in this item stems from income (net) recorded in respect of exchange rate differences and revaluation of embedded derivatives, which resulted from changes in the Euro-shekel exchange rate in the said periods. The Company has sales contracts denominated in currencies that are not the Company's operating currency. These contracts include embedded derivatives in foreign currency.

² The information with regard to the anticipated increase in selling and marketing expenses item is forward-looking information. The principal data that served as a basis for this information includes forecasts for the performance of marketing activities by the Company, including manpower recruitment, planned visits to trade shows, trainings for distributors and advertising expenses. The principal factors that might cause this information not to materialize are changes in the Company's marketing plans for reasons that are outside its control (such as changes at the Company's distributors, changes in the Company's principal markets and/or markets in which the Company is not active, and marketing activities on the part of competitors).

Profit

In the reported quarter the Company posted a net income of NIS 5,394,000 (13% of revenues), compared to a net income of NIS 1,185,000 in the corresponding period of 2010.

The net income in the reporting period, in the Company's estimation, primarily stems from the decrease in financing expenses, net of an increase in selling and marketing expenses, as explained above.

Analysis of Business Results by Operating Segment

As aforementioned, the main commercial activity of the Company is conducted by means of two business departments, the Products Department and the Systems Department. Details of the results of the different segments appear below.

Products Segment

The Systems Segment reported a profit of NIS 7,375,000 in the reporting quarter, compared to a profit of NIS 6,407,000 in the corresponding quarter of 2010. The growth in the segment's profit in the reporting period, in the Company's estimation, primarily stems from the growth in revenues from this segment, as detailed above, net of an increase in selling and marketing expenses, the effects of production outsourcing activities through a subcontractor which is characterized by an increase in production costs, in return for an increase in production capacity and the ability to meet market demand, after deducting the decrease in the gross profit margin, which mainly stemmed from the depreciation in the selling currencies against the shekel.

Systems Segment

The Systems Segment reported a profit of NIS 1,453,000 in the reporting quarter, compared to a profit of NIS 2,716,000 in the corresponding quarter of 2010. The decrease in profit, in the Company's estimation, stems from the decrease in revenues from this segment during the reported period, as explained above.

3. Liquidity and Sources of Financing

The balance of cash, cash equivalents and marketable securities of the Company, as of March 31, 2011 totaled NIS 79,301,000 , compared to approximately NIS 36,242,000 as of December 31, 2010. Most of the increase stems from a positive cash flow from financing activity net of cash flows used in operating and investment activities, as explained below.

Cash flow from financing activities in the quarter ended March 31, 2011 amounted to a negative cash flow of approximately NIS 4,002,000, The negative cash flow primarily stems from changes in asset and liability items, primarily the increase in trade and income receivable and the decrease in trade payable, less the net income for the period.

Cash flow used in investment activities in the quarter ended March 31, 2011 amounted to NIS 5,902,000. The negative cash flow primarily stems from the recording of investments in development assets and investments in cash limited in use during the period.

Cash flow used for financing activities in the quarter ended March 31, 2011 amounted to NIS 53,129,000. The positive cash flow primarily stems from the issuance of Series 3 debentures as set forth above.

On March 31, 2011, total credit facilities available to the Company for current operations stood at approximately NIS 24.2 million. On March 31, 2011, a total of NIS 23.8 million from this credit facility was utilized mainly for securing the Company's obligations in projects carried out by the Systems Department.

4. Qualitative Report Concerning Exposure to Market Risks and Methods of Risk Management

Exposure to Fluctuations in the Consumer Price Index

In March 2011, the Company issued Debentures (Series 3). These Debentures are linked to the Israeli CPI, but not less than a base index of 212.73. As a result of this issuance, the Company's exposure to fluctuations in the CPI increased. Developments and changes in the Israeli economy, including depreciation and inflation, can cause changes in the CPI, impacting the financing income/expenses of the Company.

Except for the aforesaid, as of the reporting period for 2010 no additional material changes occurred regarding the Company's exposure to market risks and the management thereof.

5. Consolidated Linkage Bases Report

Consolidated Linkage Bases Report

As of 31.03.2011						
Israeli Currency		Foreign Currency			Total	
Unlinked	CPI-Linked	In EURO	In USD	Non-Monetary Balances		
NIS in Thousands						
Assets						
Cash and cash equivalents	54,411	-	1,871	4,341	-	60,623
Cash limited in use	3,190	-	-	-	-	3,190
Marketable securities	7,319	10,637	-	722	-	18,678
Trade and income receivable	7,692	-	6,193	5,500	-	19,385
Embedded derivatives	-	-	146	-	-	146
Accounts receivable	1,665	-	54	352	-	2,071
Inventory	-	-	-	-	28,291	28,291
Inventory of work in progress	-	-	-	-	8,687	8,687
Long-term deposits	-	-	-	-	423	423
Fixed assets, net	-	-	-	-	21,998	21,998
Intangible assets, net	-	-	-	-	16,893	16,893
Total assets	74,277	10,637	8,264	10,915	76,292	180,385
Liabilities						
Current maturities of long-term liabilities	-	87	3,897	380	-	4,364
Current maturities of debentures	-	6,085	-	-	-	6,085
Suppliers and service providers	9,873	-	6,246	6,560	-	22,679
Embedded derivatives	-	-	1,753	-	-	1,753
Accounts payable and accruals	22,258	-	450	668	-	23,376
Loans from banks and others	-	273	11,466	2,184	-	13,923
Debentures	-	65,284	-	-	-	65,284
Liabilities due to employee benefits, net	-	-	-	-	1,666	1,666
Total liabilities	32,131	71,729	23,812	9,792	1,666	139,130
Net assets (liabilities)	42,146	(61,092)	(15,548)	1,123	74,626	41,255

6. Sensitivity Tests on Financial Instruments as of March 31, 2011

The Company conducted, as of the balance sheet date, five sensitivity tests in respect of changes within an upper and lower range of 5% and 10% in market factors. The market factor tests were based on the model specified.

- 1) Table listing changes in the fair value of financial instruments sensitive to fluctuations in the dollar exchange rate

	Profit (Loss) on Change NIS in Thousands		NIS in Thousands Fair Value	Profit (Loss) on Change NIS in Thousands	
	+10%	+5%		5%-	10%-
NIS to \$	3.829	3.655	3.481	3.307	3.133
Cash and cash equivalents	434	217	4,341	(217)	(434)
Marketable securities	72	36	722	(36)	(72)
Trade and income receivable	550	275	5,500	(275)	(550)
Accounts receivable	35	18	352	(18)	(35)
Current maturities of loans	(38)	(19)	(380)	19	38
Trade payable	(656)	(328)	(6,560)	328	656
Accounts payable and accruals	(67)	(33)	(668)	33	67
Long-term loans	(218)	(109)	(2,184)	109	218
Total	112	56	1,123	(56)	(112)

- 2) The following table summarizes the fair value changes in financial instruments that are sensitive to changes in the Euro's exchange rate

	Profit (Loss) on the Change, NIS in Thousands		NIS in Thousands Fair Value	Profit (Loss) on the Change, NIS in Thousands	
	+10%	+5%		5%-	10%-
NIS to Euro	<u>5.444</u>	<u>5.197</u>	<u>4.9495</u>	<u>4.702</u>	<u>4.455</u>
Cash and cash equivalents	187	94	1,871	(94)	(187)
Trade and income receivable	619	310	6,193	(310)	(619)
Accounts receivable	5	3	54	(3)	(5)
Current maturities of loans	(390)	(195)	(3,897)	195	390
Trade payable	(625)	(312)	(6,246)	312	625
Accounts payable and accruals	(45)	(23)	(450)	23	45
Long-term loans	(1,147)	(573)	(11,466)	573	1,147
Total	<u>(1,394)</u>	<u>(697)</u>	<u>(13,491)</u>	<u>697</u>	<u>1,394</u>

- 3) The following table presents the fair value changes in financial instruments sensitive to fluctuations in the Consumer Price Index

	Profit (Loss) on the Change, NIS in Thousands		NIS in Thousands Fair Value	Profit (Loss) on the Change, NIS in Thousands	
	+10%	+5%		5%-	10%-
CPI in points	234.464	223.807	213.149	202.492	191.834

Marketable securities	1,064	532	10,637	(532)	(1,064)
Current maturities of loans	(9)	(4)	(87)	4	9
Current maturities of debentures	(609)	(304)	(6,085)	304	609
Long-term loans	(27)	(14)	(273)	14	27
Debentures	(6,528)	(3,264)	(65,284)	3,264	6,528
Total	<u>(6,109)</u>	<u>(3,054)</u>	<u>(61,092)</u>	<u>3,054</u>	<u>6,109</u>

- 4) The following table presents the fair value changes in derivative financial instruments that are sensitive to changes in underlying assets denominated in Euro

	Profit (Loss) on the Change, NIS in Thousands		NIS in Thousands Fair Value	Profit (Loss) on the Change, NIS in Thousands	
	10%increase in the underlying asset	5%increase in the underlying asset		5%decline in the underlying asset	10%decline in the underlying asset
Embedded derivatives	359	179	146	(179)	(359)
Liability in respect of embedded derivatives	1,723	863	(1,753)	(857)	(1,717)
Total	<u>2,082</u>	<u>1,042</u>	<u>(1,607)</u>	<u>(1,036)</u>	<u>(2,076)</u>

- 5) The following table presents the fair value changes in financial instruments sensitive to fluctuations in rates of convertible securities

	Profit (Loss) on the Change, NIS in Thousands		NIS in Thousands Fair Value	Profit (Loss) on the Change, NIS in Thousands	
	+10%	+5%		5%-	10%-
Local – government	745	373	7,454	(373)	(745)
Local – corporate	1,122	561	11,225	(561)	(1,122)
Total	<u>1,868</u>	<u>934</u>	<u>18,678</u>	<u>(934)</u>	<u>(1,868)</u>

7. The balance of the Company's liabilities by repayment dates (Regulation 38e)

Below is a breakdown of the Company's liabilities by repayment dates, as of March 31, 2011:

A. Debentures issued to the public by the reporting corporation and held by the public, except for debentures held by the parent company of the corporation, the controlling shareholder therein, companies controlled by any of the aforesaid or companies controlled by the corporation - based on separate financial statements of the corporation ("solo" financial statements) (in NIS thousand):

Period	Principal payments					Gross interest payments (no tax deduction)
	In NIS linked to the CPI	In Unlinked NIS	Euro	Dollar	Other	
First year	6,085	-	-	-	-	4,117
Second year	17,373	-	-	-	-	3,746
Third year	17,373	-	-	-	-	2,737
Fourth year	11,288	-	-	-	-	1,913
Fifth year and thereafter	22,577	-	-	-	-	1,913
Total	74,696	-	-	-	-	14,426

B. Private debentures and non-bank credit, except for debentures held by the parent company of the corporation, the controlling shareholder therein, companies controlled by any of the aforesaid or companies controlled by the corporation - based on separate financial statements of the corporation (solo financial statements) (in NIS thousand):

Period	Principal payments					Gross interest payments (no tax deduction)
	In NIS linked to the CPI	In Unlinked NIS	Euro	Dollar	Other	
First year	87	-	-	-	-	32
Second year	96	-	-	-	-	23
Third year	106	-	-	-	-	13
Fourth year	71	-	-	-	-	3
Fifth year and thereafter	-	-	-	-	-	-
Total	360	-	-	-	-	71

C. Credit from Israeli banks - based on the Company's separate financial statements (solo financial statements) (NIS thousand):

Period	Principal payments					Gross interest payments (no tax deduction)
	In NIS linked to the CPI	In Unlinked NIS	Euro	Dollar	Other	
First year	-	-	3,897	380	-	420
Second year	-	-	3,897	380	-	306
Third year	-	-	3,897	380	-	197
Fourth year	-	-	2,020	380	-	104
Fifth year and thereafter	-	-	1,652	1,044	-	93
Total	-	-	15,363	2,564	-	1,120

D. Table summarizing tables A-C, total bank credit, non-bank credit and debentures - based on the Company's separate financial statements (solo financial statements) (NIS thousand):

Period	Principal payments					Gross interest payments (no tax deduction)
	In NIS linked to the CPI	In Unlinked NIS	Euro	Dollar	Other	
First year	6,172	-	3,897	380	-	4,569
Second year	17,469	-	3,897	380	-	4,075
Third year	17,479	-	3,897	380	-	2,947
Fourth year	11,359	-	2,020	380	-	2,020
Fifth year and thereafter	22,577	-	1,652	1,044	-	2,006
Total	75,056	-	15,363	2,564	-	15,617

E. Exposure of the off-balance sheet credit of all the consolidated companies, with the exception of companies that are reporting corporations and data of the reporting corporation, which were presented in table F above (NIS thousand):

Period	Principal payments					Gross interest payments (no tax deduction)
	In NIS linked to the CPI	In Unlinked NIS	Euro	Dollar	Other	
First year	-	-	-	-	-	-
Second year	-	-	-	-	-	-
Third year	-	-	-	-	-	-
Fourth year	-	-	-	-	-	-
Fifth year and thereafter	-	-	-	-	-	-
Total	-	-	-	-	-	-

8. Disclosure to the Debenture Holders

The Corporation's Debentures:

(1)	Security:	Debentures (Series 2)
A	Issue date	August 2006
B	Total par value on issue date	34,000,000
C	Par value as of the reporting date	16,140,000
D	Par value according to linkage terms – as of the report date	18,253,688
E	Accrued interest as of the report date	100,670
F	Liability value as of the report date	11,400,448
G	Stock Exchange value	19,271,000
H	Type of interest, including description	6.1% annual interest
I	Payment dates of outstanding principal	Balance of three equal annual payments beginning on August 25, 2011
J	Payment dates of interest	On the 25th of February and August in the years 2011-2013
K	Details of linkage basis of interest and principal	Principal and interest linked to the Consumer Price Index at a base rate of no less than 188.1 (July 2006 index)
L	Are the debentures convertible	Not convertible
M	Corporation's right to perform early redemption	Does not exist
N	Has a guarantee been given for payment of the liability in the trust deed	No
O	Is the liability material to the Company	Yes
(2)	The trustee in charge of the debenture series in the trust company; the trustee's contact details	Hermetic Trust (1975) Ltd Dan Avnon and/or Merav Ofer-Oren, 113 Hayarkon Street, Tel Aviv 63573, telephone: 03-5274867 Fax: 03-5271451, Email: hermetic@hermetic.co.il

(5+6) As of the end of the quarterly reporting period, the Company is in compliance with all the terms and obligations of the trust deed for Debentures (Series 2), the Company was not found to be in violation of any undertaking or term that was set in the trust deed, which are not of a technical nature, and there are no grounds for calling for immediate payment of the debentures.

(8) The Debentures (Series 2) are not secured by any charge whatsoever. As long as the Company retains an unpaid balance of the principal of Debentures (Series 2) in circulation, the interest and linkage differentials thereon, in order to secure the repayment thereof the Company will refrain from creating additional charges on its assets in excess of the existing ones, in favor of any third party whomsoever, without the trustees' advance and written consent, save with regard to charges on land and/or equipment that is purchased by the Company, whose charges will serve solely in order to secure the funding that was given for purchasing the asset that is the object of the charge – and which the Company will be permitted to create without any restrictions in favor of any person whomsoever.

(1)	Security:	Debentures (Series 3)
A	Issue date	march 2011
B	Total par value on issue date	56,442,000
C	Par value as of the reporting date	56,442,000
D	Par value according to linkage terms – as of the report date	56,442,000
E	Accrued interest as of the report date	60,991
F	Liability value as of the report date	53,883,867
G	Stock Exchange value	58,079,000
H	Type of interest, including description	5.65% annual interest
I	Payment dates of outstanding principal	Five equal annual payments as of March 23, 2013
J	Payment dates of interest	Every 23rd of March and September commencing from September 23, 2011 and until March 23, 2017 (inclusive)
K	Details of linkage basis of interest and principal	Principal+interest linked to the Consumer Price Index (February 2011 CPI)
L	Are the debentures convertible	Not convertible
M	Corporation's right to perform early redemption	Does not exist
N	Has a guarantee been given for payment of the liability in the trust deed	No
O	Is the liability material to the Company	Yes
(2)	The trustee in charge of the debenture series in the trust company; the trustee's contact details	Reznick, Paz, Nevo Trust Ltd 14, Yad Harutzim St, Tel Aviv 67778 Tel: 03-6389200; Fax: 03-6393316 Email: trust@rpn.co.il

(5+6) As of the end of the quarterly reporting period, the Company is in compliance with all the terms and obligations of the trust deed for Debentures (Series 3), the Company was not found to be in violation of any undertaking or term that was set in the trust deed, which are not of a technical nature, and there are no grounds for calling for immediate payment of the debentures.

In accordance with a certificate of the Registrar of Companies dated April 28, 2011, a pledge over a bank account deposit was registered, to secure the payment of interest pursuant to the terms of the debentures (Series 3). Pursuant to the certificate, the date of registration of the pledge is April 4, 2011. For details see Immediate Report on Registration of A Pledge for Debenture Holders(Series 3), which is hereby included by way of reference, dated May 5, 2011, reference no: 2011-01-141294

(8) As specified in section 3 of Chapter A above, on April 4, 2011, a pledge over a bank account deposit was created at the Registrar of Companies, in the amount of the annual interest rate on the debentures, to secure the payment of interest pursuant to the terms of the debentures (Series 3). As long as the Company has an outstanding balance of the Debentures (Series 3), the Company will refrain from creating additional charges on its assets, in excess of those that existed on the date of signing the trust

deed in connection with the debentures (Series 3), in favor of any third party whatsoever, without the trustees' advance and written consent, save with regard to charges on land and/or equipment that will be purchased by the Company subsequent to the date of signing the trust deed, the pledging thereof will serve solely for the purpose of securing the funding that was given for purchasing the asset that is the object of the charge – and which the Company will be permitted to create without any restrictions in favor of any person whomsoever. Subject to the aforesaid, the Company shall be entitled to create, without any limitation, additional charges of any type on its assets, all or part thereof, without this derogating from the Company's ability to undertake towards third parties to refrain from creating additional charges and without derogating from the aforesaid undertakings which the Company made to the banks prior to the date of signing the Debenture trust Deed (Series 3).

9. Projected cash flow

The Board of Directors determined, following an examination of the four warning signs specified in Regulation 10(b)(14) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, regarding disclosure of the anticipated cash flow for financing payment of the Company's obligations, that the Company has no liquidity problems and is able to meet its obligations, including the full payment of its liabilities in respect of the issuance of Debentures (Series 2 and 3). An examination as stated is performed by the Board of Directors on a quarterly basis, at the time of approval of the financial statements published by the Company for the quarter in question.

10. Details of the Process of Approval of the Company's Financial Statements

10.1 Preparation of the financial statements

The Company's financial statements were prepared by the Company's CFO. The statements were reviewed by the Company's auditor, who is given full access to all data and information in the Company, including meetings with the Company's employees and managers, as required by him. Subsequent to the auditor's review, the financial statements were submitted to the members of the committee for review of the financial statements.

10.2 Committee for review of the financial statements

Upon the entry into effect of Companies Regulations (Provisions and Conditions for the Process of Approval of the Financial Statements), 2010, the audit committee was appointed by the Board of Directors of the Company (in its session on November 11, 2010) to serve as the balance sheet committee for review of the financial statements ("the Committee"), in the composition and meaning set out in these regulations, in all matters relating to the financial statements as of December 31, 2010 and thereafter. As of the reporting date, the following directors serve on this committee:

Name:	CPA Zvi Livne	CPA Yoel Sela	CPA Moshe Braaz
An independent or an external director	No	External director	External director
Is he the Chairman of the committee for review of financial statements	No	No	Yes
Does he have accounting and financial expertise	Yes	Yes	Yes
Did he provide a statement prior to his nomination	Yes	Yes	Yes

* For details on the education and experience of the members of the committee for review of the financial statements, see section 4.11 of Chapter B in the Periodic Report for 2010.

As part of the process of approval of the financial Statements as of March 31, 2011, a committee meeting was held on May 24, 2011. In this meeting the committee discussed the effectiveness of internal control over financial reporting and disclosure by the Company, which are under the responsibility of the person in charge of reporting and the person in charge of control oversight, and which are supervised by the steering committee, which serves as a top-level supervising entity to ensure full compliance with reporting regulations, in accordance with internal procedures adopted by the Board of Directors on February 2, 2011 in connection with periodic and immediate reports. A comprehensive discussion of material issues took place in order to formulate the committee's recommendations to the board of directors, for the purpose of its approval of the financial statements; later, the committee approved its recommendations.

The following were invited and attended the committee's meeting on May 24, 2011: members of the committee (CPAs Zvi Livne, Yoel Sela and Moshe Braaz), Mr. Yair Itzkovitch, CFO, Mr. Eyal Saban, VP, Mr. Nir Weisberger, Company attorney, Mr. Haim Halfon, from the Company's accounting firm, and also Mr. Miguel Elhanati, the Company's internal auditor.

The committee discussed and formulated its recommendations to the board of directors in the following matters: assessments and estimates made in connection with the financial statements; internal controls related to the financial reporting process; the integrity and appropriateness of the disclosure in the financial statements; the accounting policy adopted and the accounting treatment implemented in material issues; valuations including the underlying assessments and estimates. The draft financial statements and committee recommendations were submitted to the board's review two business days before the board convened to discuss the financial statements, which is a reasonable timeframe, in the board's estimation, to submit the recommendations to the board of directors.

10.3 Board of Directors of the Company

The Company regards the Board of Directors as the entity in charge of overall control of the Company's financial statements. The members of the Company's Board of Directors and their respective duties in the Company are as follows:

1. Mr. Haim Shani – Chairman of the Board and Company CEO, and a director with professional qualification.
2. Ms. Bareket Shani – Director with professional qualification, Vice President and Head of Human Resources, member of the Credit and Investment Committee and of the Securities Committee of the Company's Board of Directors.
3. Mr. Zvi Livneh, CPA – Director with accounting skills, member of the credit and investments committee, member of the Audit Committee and member of the committee for review of the financial statements.
4. Mr. Yoel Sela, CPA – External and independent director with accounting skills, member of the board's credit and investments committee, member of the Audit Committee and member of the committee for review of the financial statements.
5. Mr. Moshe Braz, CPA – External and independent director with accounting skills, member of the Audit Committee, member of the committee for review of the financial statements and member of the Securities Committee of the Company's Board of Directors.

Following the Board of Directors' review of the financial statements, a board meeting was held for the purpose of presentation and discussion of the financial statements. In the meeting on May 26, 2011, the Company's management reviewed the main data of the financial statements. The Company's auditor attended the meeting and responded to the questions of the board of directors, which were addressed to him (together with the Company's CEO and CFO, who responded to questions addressed to them). At the end of the discussion, the financial statements were approved by the board of directors by a vote.

Zvi Livneh
Director

Haim Shani
Chairman and CEO

Date: May 26, 2011

UNITRONICS (1989) (R"G) LTD.
Condensed Consolidated Interim
Financial Statements
March 31,2011

(Unaudited)

Unitronics (1989) (R"G) Ltd.

**Condensed Consolidated Interim
Financial Statements**

March 31, 2011

(unaudited)

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REVIEW REPORT OF THE AUDITORS OF UNITRONICS (1989) (R"G) LTD.

Introduction

We reviewed the attached financial information of Unitronics (1989) (R"G) Ltd. and its subsidiaries (hereinafter – “the Group”) which include the condensed interim consolidated statement of financial position as at March 31, 2011 and the condensed interim consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for the period of three months then ended. The Board of Directors and management are responsible for the preparation and presentation of the financial information for this interim period in accordance with IAS 34 “Financial reporting for interim periods”, and they are responsible for the preparation of financial information for this interim period under Chapter D of the Israeli Securities Regulations (Periodic and Immediate Report) – 1970. Our responsibility is to express a conclusion on the financial information for the interim period, based on our review.

We did not review the condensed financial information for the interim period of a consolidated company whose assets included in the consolidation comprise 4% of all the consolidated assets as at March 31, 2011 and whose revenues included in the consolidation comprise 17% of all consolidated revenues for the period of three months then ended. The condensed financial information for the interim periods of that company were reviewed by other auditors whose review report was furnished to us and our conclusion, to the extent that they relate to financial information for that company, are based on the review report of the other auditors.

Scope of the review

We prepared our review in accordance with Review Standard No. 1 of the Institute of Certified Public Accountants in Israel “Review of financial information for interim periods prepared by the entity's auditor”. The review of the financial information for interim periods comprises clarifications, mainly with the people responsible for financial and accounting matters, and from adopting analytical and other review procedures. A review is more limited in scope to a much larger extent than an audit performed in accordance with generally accepted auditing standards in Israel, and therefore does not enable us to be certain that we will know of all the significant matters which could have been identified in an audit. Consequently, we are not issuing an audit opinion.

Conclusion

Based on our review, and on the review report of the other auditors, nothing came to our notice which would cause us to think that the above financial information is not prepared, in all significant aspects, in accordance with IAS34.

In addition to the remarks in the previous paragraph, based on our review, and on the review report of the other auditors, nothing came to our notice which cause us to think that the above financial information does not meet, in all significant aspects, the provisions of Disclosure under Chapter D of the Israeli Securities Regulations (Periodic and Immediate Reports) – 1970.

Amit, Halfon
Certified Public Accountants (Israel)

Ramat Gan,
May 26, 2011

Unitronics (1989) (R"G) Ltd.
Condensed consolidated interim statement of financial position

	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>		<u>(audited)</u>
	<u>(in thousands)</u>			
<u>Convenience translation into Euro (1)</u>	<u>NIS</u>			
<u>Current assets</u>				
Cash and cash equivalents	12,248	60,623	18,232	17,456
Restricted cash	645	3,190	-	-
Marketable securities	3,774	18,678	18,565	18,786
Accounts receivable -				
Trade	3,917	19,385	12,140	14,219
Other	419	2,071	286	1,271
Embedded derivatives	30	146	-	-
Inventory	5,716	28,291	16,052	29,898
Inventory - work in progress	1,755	8,687	921	7,461
	<u>28,504</u>	<u>141,071</u>	<u>66,196</u>	<u>89,091</u>
<u>Non-current assets</u>				
Long-term deposits	85	423	187	404
Property and equipment, net	4,444	21,998	21,829	21,819
Intangible assets, net	3,413	16,893	14,721	15,717
	<u>7,942</u>	<u>39,314</u>	<u>36,737</u>	<u>37,940</u>
	<u>36,446</u>	<u>180,385</u>	<u>102,933</u>	<u>127,031</u>

haim Shani
Chairman of the Board of
Directors and C.E.O.

Tzvi Livne
Director

Yair Itscovich
Chief Financial Officer

Approved: May 26, 2011.

(1) See note 1C.

The notes to the condensed consolidated interim financial statements form an integral part thereof.

Unitronics (1989) (R"G) Ltd.
Condensed consolidated interim statement of financial position

	<u>March 31, 2011</u>	<u>March 31, 2011</u>	<u>March 31, 2010</u>	<u>December 31, 2010</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>		<u>(audited)</u>
	<u>(in thousands)</u>			
	<u>Convenience translation into Euro (1)</u>	<u>NIS</u>		
<u>Current liabilities</u>				
Current maturities of long term loans	882	4,364	1,047	4,202
Current maturities of bonds and convertible bonds	1,229	6,085	14,370	6,032
Accounts payable -				
Trade	4,582	22,679	17,946	25,755
Other	4,723	23,376	12,947	23,648
Warrants	-	-	371	-
Embedded derivatives	354	1,753	6,762	3,951
	<u>11,770</u>	<u>58,257</u>	<u>53,443</u>	<u>63,588</u>
<u>Non - current liabilities</u>				
Loans from banks and others	2,813	13,923	6,203	14,526
Bonds	13,190	65,284	16,228	11,175
Liabilities for benefits to employees, net	337	1,666	1,098	1,583
	<u>16,340</u>	<u>80,873</u>	<u>23,529</u>	<u>27,284</u>
<u>Shareholders' equity</u>				
Share capital	71	352	352	352
Share premium	10,221	50,588	50,576	50,588
Capital reserve from translation of foreign operations	(272)	(1,348)	(840)	(1,176)
Company shares held by the company	(1,286)	(6,365)	(4,972)	(6,239)
Accumulated loss	(398)	(1,972)	(19,155)	(7,366)
	<u>8,336</u>	<u>41,255</u>	<u>25,961</u>	<u>36,159</u>
	<u>36,446</u>	<u>180,385</u>	<u>102,933</u>	<u>127,031</u>

(1) See note 1C.

The notes to the condensed consolidated interim financial statements form an integral part thereof.

Unitronics (1989) (R"G) Ltd.
Condensed consolidated interim statement of operations

	For the three month period ended March 31, <u>2011</u>	For the three month period ended March 31, <u>2011</u> <u>2010</u>		For the year ended December 31, <u>2010</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>		<u>(audited)</u>
		<u>(in thousands)</u>		
	<u>Convenience translation into Euro (1)</u>	<u>NIS</u>		
Revenues	8,156	40,367	36,350	152,979
Cost of revenues	<u>5,850</u>	<u>28,953</u>	<u>24,842</u>	<u>108,725</u>
Gross profit	2,306	11,414	11,508	44,254
Development expenses, net	154	763	644	3,194
Selling & marketing expenses	673	3,331	2,311	11,189
General & administrative expenses	470	2,325	1,670	7,981
Capital gain	<u>-</u>	<u>-</u>	<u>-</u>	<u>99</u>
Operating profit	1,009	4,995	6,883	21,989
Financing income	381	1,886	790	1,884
Financing expenses	<u>300</u>	<u>1,487</u>	<u>8,858</u>	<u>12,894</u>
Profit (loss) for the period	<u>1,090</u>	<u>5,394</u>	<u>(1,185)</u>	<u>10,979</u>
Profit (loss) per 1 ordinary share NIS 0.02 par value (NIS)	<u>0.108</u>	<u>0.533</u>	<u>(0.111)</u>	<u>1.059</u>

(1) See note 1C.

The notes to the condensed consolidated interim financial statements form an integral part thereof.

Unitronics (1989) (R"G) Ltd.
Condensed consolidated interim statement of comprehensive income

	For the three month period ended March 31, <u>2011</u>	For the three month period ended March 31, <u>2011</u> <u>2010</u>		For the year ended December 31, <u>2010</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>		<u>(audited)</u>
		<u>(in thousands)</u>		
	<u>Convenience translation into Euro (1)</u>	<u>NIS</u>		
Profit (loss) for the period	1,090	5,394	(1,185)	10,979
<u>Other comprehensive income (loss)</u>				
Actuarial loss	-	-	-	(375)
Translation of foreign operation	(34)	(172)	(97)	(433)
Other comprehensive income (loss) for the period	(34)	(172)	(97)	(808)
Total comprehensive income (loss) for the period	<u>1,056</u>	<u>5,222</u>	<u>(1,282)</u>	<u>10,171</u>

(1) See note 1C.

The notes to the condensed consolidated interim financial statements form an integral part thereof.

Unitronics (1989) (R"G) Ltd.
Condensed consolidated interim statement of changes in equity

	<u>Share capital</u>	<u>Share premium</u>	<u>Capital reserve from translation of foreign operations</u>	<u>Company shares held by the company</u>	<u>Accumulated Loss</u>	<u>Total</u>
<u>NIS, in thousands</u>						
Balance at January 1, 2010 (audited)	352	50,576	(743)	(3,150)	(17,970)	29,065
Purchase of company shares by the company	-	-	-	(3,089)	-	(3,089)
Warrants exercise	(*)-	12	-	-	-	12
Total comprehensive income for the year	<u>-</u>	<u>-</u>	<u>(433)</u>	<u>-</u>	<u>10,604</u>	<u>10,171</u>
Balance at December 31, 2010 (audited)	352	50,588	(1,176)	(6,239)	(7,366)	36,159
Purchase of company shares by the company	-	-	-	(126)	-	(126)
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>(172)</u>	<u>-</u>	<u>5,394</u>	<u>5,222</u>
Balance at March 31, 2011 (unaudited)	<u>352</u>	<u>50,588</u>	<u>(1,348)</u>	<u>(6,365)</u>	<u>(1,972)</u>	<u>41,255</u>
Balance at January 1, 2010 (audited)	352	50,576	(743)	(3,150)	(17,970)	29,065
Purchase of company shares by the company	-	-	-	(1,822)	-	(1,822)
Total comprehensive loss for the period	<u>-</u>	<u>-</u>	<u>(97)</u>	<u>-</u>	<u>(1,185)</u>	<u>(1,282)</u>
Balance at March 31, 2010 (unaudited)	<u>352</u>	<u>50,576</u>	<u>(840)</u>	<u>(4,972)</u>	<u>(19,155)</u>	<u>25,961</u>
<u>Convenience translation into Euro (1) , in thousands</u>						
Balance at January 1, 2011	71	10,221	(238)	(1,261)	(1,488)	7,305
Purchase of company shares by the company	-	-	-	(25)	-	(25)
Total comprehensive loss for the period	<u>-</u>	<u>-</u>	<u>(34)</u>	<u>-</u>	<u>1,090</u>	<u>1,056</u>
Balance at March 31, 2011	<u>71</u>	<u>10,221</u>	<u>(272)</u>	<u>(1,286)</u>	<u>(398)</u>	<u>8,336</u>

(*) less than 1,000 NIS

(1) See note 1C.

The notes to the condensed consolidated interim financial statements form an integral part thereof.

Unitronics (1989) (R"G) Ltd.
Condensed consolidated interim statement of Cash Flows

	For the three month period ended March 31, <u>2011</u>	For the three month period ended March 31, <u>2011</u> <u>2010</u>		For the year ended December 31, <u>2010</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>		<u>(audited)</u>
	<u>(in thousands)</u>			
	<u>Convenience translation into Euro (1)</u>	<u>NIS</u>		
<u>Cash flows - operating activities</u>				
Profit (loss) for the period	1,090	5,394	(1,185)	10,979
Adjustments necessary to show the cash flows - operating activities (Appendix A)	(1,898)	(9,396)	6,039	2,168
Cash flows provided by (used in) operating activities	(808)	(4,002)	4,854	13,147
<u>Cash flows - investing activities</u>				
Investment in marketable securities, net	(15)	(73)	(176)	(16)
Purchase of property and equipment	(119)	(588)	(384)	(1,608)
Sale of property and equipment	-	-	-	115
Investment in restricted cash	(645)	(3,190)	-	-
Investment in long-term deposits	(6)	(32)	(100)	(260)
Repayment of long-term deposits	3	13	89	167
Investment in intangible assets	(411)	(2,032)	(1,024)	(5,010)
Cash flows used in investing activities	(1,193)	(5,902)	(1,595)	(6,612)
<u>Cash flows - financing activities</u>				
Short-term credit, net	-	-	102	-
Receiving long-term loan	-	-	-	14,552
Repayment of long-term loans	(217)	(1,076)	(241)	(2,713)
Bonds issue	10,977	54,331	-	-
Repayment of convertible bonds	-	-	-	(8,600)
Exercise of warrants	-	-	-	11
Repayment of bonds	-	-	-	(5,939)
Purchase of company shares by the company	(25)	(126)	(1,822)	(3,089)
Cash flows provided by (used in) financing activities	10,735	53,129	(1,961)	(5,778)
Translation differences in respect of foreign operations cash balances	(13)	(58)	106	(129)
Change in cash and cash equivalents	8,721	43,167	1,404	628
Cash and cash equivalents at beginning of period	3,527	17,456	16,828	16,828
Cash and cash equivalents at end of period	12,248	60,623	18,232	17,456

(1) See note 1C.

The notes to the condensed consolidated interim financial statements form an integral part thereof.

Unitronics (1989) (R"G) Ltd.
Condensed consolidated interim statements of cash flows

	For the three month period ended March 31,	For the three month period ended March 31,		For the year ended December 31,
	2011	2011	2010	2010
	<u>(unaudited)</u>	<u>(unaudited)</u>		<u>(audited)</u>
	<u>(in thousands)</u>			
	<u>Convenience translation into Euro (1)</u>	<u>NIS</u>		
<u>Appendix A - Adjustments</u>				
necessary to show the cash flows - operating activities				
Depreciation and amortization	282	1,396	1,729	6,370
Loss (profit) from marketable securities, net	37	181	(270)	(651)
Increase in liabilities for benefits to employees, net	17	83	161	271
Capital gain	-	-	-	(99)
Reevaluation of warrants	-	-	271	(99)
Exchange rate changes of long-term loans, bonds and convertible bonds	158	784	(602)	(399)
Reevaluation of embedded derivatives	(474)	(2,344)	5,261	2,450
Decrease (increase) in accounts receivable- trade	(1,060)	(5,246)	1,204	(1,003)
Decrease (increase) in accounts receivable - other	(168)	(833)	238	(887)
Decrease (increase) in inventory	319	1,578	(4,117)	(18,080)
Decrease (increase) in inventory - work in progress	(248)	(1,226)	6,914	374
Increase (decrease) in accounts payable - trade	(621)	(3,076)	7,050	15,001
Decrease in accounts payable - other	(140)	(693)	(11,800)	(1,080)
	<u>(1,898)</u>	<u>(9,396)</u>	<u>6,039</u>	<u>2,168</u>
<u>Appendix B - Non-cash operations</u>				
Bonds issue expenses	<u>93</u>	<u>458</u>	<u>-</u>	<u>-</u>
<u>Appendix C - Additional information regarding operating activities</u>				
Cash paid during the period for:				
Interest	<u>141</u>	<u>696</u>	<u>761</u>	<u>2,065</u>
Taxes on income	<u>5</u>	<u>27</u>	<u>27</u>	<u>108</u>
Cash received during the period for:				
Interest	<u>48</u>	<u>239</u>	<u>179</u>	<u>639</u>

(1) See note 1C.

The notes to the condensed consolidated interim financial statements form an integral part thereof.

Unitronics (1989) (R"G) Ltd.
Notes to the Financial Statements

Note 1 - General

- A. These financial statements have been prepared in a condensed format as of March 31, 2011, and for the three months period then ended ("consolidated interim financial statements"). These financial statements should be read in conjunction with the Company's audited annual financial statements and accompanying notes as at December 31, 2010 and for the year then ended.
- B. Following are data regarding the Israeli CPI and the exchange rate of the U.S. dollar and the Euro:

<u>As of</u>	<u>Israeli CPI</u> <u>Points (*)</u>	<u>Exchange rate of</u> <u>one Euro</u> <u>NIS</u>	<u>Exchange rate of</u> <u>one U.S. dollar</u> <u>NIS</u>
March 31, 2011	213.15	4.9495	3.481
March 31, 2010	204.42	4.9905	3.713
December 31, 2010	211.67	4.7379	3.549
Change during the period	%	%	%
Three month ended March 31, 2011	0.7	4.47	(1.92)
Three month ended March 31, 2010	(0.86)	8.29	(1.64)
For the year ended December 31 2010	2.66	12.93	(5.99)

(*) The index on an average basis of 1993 = 100.

- C. Convenience translation in EURO

For the convenience of the reader, the NIS amounts for the last reported period have been translated in EURO by dividing each NIS amount by the representative rate of exchange of the EURO as at March 31, 2011 (EURO 1 = NIS 4.9495).

The translated EURO amounts presented in these financial statements should not be construed as representing amounts receivable or payable in EURO unless otherwise indicated.

Note 2 - Significant Accounting Policies

- A. The interim consolidated financial statements are prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods as set forth in IAS 34 – "Financial reporting for interim periods" including the requirements of disclosure under Chapter D of the Israeli Securities Regulations (Periodic and Immediate Reports) – 1970. The significant accounting principles and the methods of calculation which were implemented in the preparation of the interim financial statements are identical to those used in the preparation of the last annual financial statements, apart from those mentioned in clause B below.
- B. Disclosure of new IFRS implemented in the reported period
1. IAS 34 - Financial Reporting for Interim periods

Since 1 January 2011 the Company applies the amendment to IAS 34, Financial Reporting for Interim periods, significant events and transactions, which was published in the framework of the improvements project for 2010. According to the amendment disclosure requirements were added to the interim financial statements relating to significant events and transactions. Furthermore, the requirement to evaluate the material essence of events and transactions was dropped from the minimal disclosure requirements.

The amendment did not have any significant effect on the Group's disclosures to its consolidated interim financial statements.

Unitronics (1989) (R”G) Ltd.
Notes to the Financial Statements

Note 2 - Significant Accounting Policies (cont'd)

- B. Disclosure of new IFRS implemented in the reported period (cont'd)
2. Amendments, standards and interpretations to the existing standards which came into force and are binding for accounting periods starting January 1, 2011, but the first implementation did not have any significant effect on the Group's financial statements:
 - a. IFRS 7 - Financial Instruments: Disclosure.
 - b. IAS 1 - Presentation of financial statements.
 - c. IAS 24 - Related Party Disclosures.
- C. Disclosure of new IFRS during the period prior to their implementation

In May 2011, the IASB published 4 New Standards: IFRS 10 - Consolidated Financial Statements, IFRS 11 - Joint Arrangements, IFRS 12 - Disclosure regarding Rights in other Entities (hereinafter: "the New Standards"), and IFRS 13 - Measurement of Fair Value and amended 2 existing standards: IAS 27R (amended in 2011) - Separate Financial Statements, and IAS 28R (amended in 2011) Investments in Affiliated Companies and in Joint Ventures.

The New Standards will be implemented retrospectively as from the financial statements for annual periods starting January 1, 2013 or thereafter. Earlier implementation is possible. But if the Company decides to do so, it must adopt the New Standards in their entirety (excluding disclosure requirements in accordance with IFRS 12, which can be adopted separately). The Standards include transitory provisions with certain exemptions at the time of first implementation.

The following are the main provisions of the Standards relevant for the Company and their expected effect on the Company:

1. IFRS 10 - Consolidated Financial Statements

IFRS 10 replaces IAS 27 regarding the accounting treatment of consolidated financial statements, and includes the accounting treatment on the consolidation of structured entities which in the past were handled by SIC 12 - consolidation - entities for special purposes.

IFRS 10 does not include changes in consolidation procedures, but changes the definition of control for purpose of consolidation and includes a single model for consolidation purposes. According to IFRS 10, in order for control to exist it requires the existence of power and exposure or the right to variable returns from the investee company. Power is the ability to affect and to direct the operations of the investee company, which significantly affect the return on the investment.

IFRS 10 stipulates that at the time of examining the existence of control, potential voting rights must be taken in account, only if they are real, compared to IAS 27 prior to the amendment, which stipulated that potential voting rights will be taken into account only if they can be exercised immediately and when management's intentions must be ignored as well as the financial ability to exercise these rights.

In addition, IFRS 10 stipulates that an investor may control even if he holds less than 10% of the voting rights in the investee company (effective control), and this contrary to the existing IAS 27 which enabled the choice of two models for consolidation - the effective control model and the legal control model.

IFRS 10 will be implemented retrospectively as from the financial statements for annual periods starting January 1, 2013 or thereafter.

In the Company's opinion, IFRS 10 is not expected to have a significant effect on the financial statements.

Unitronics (1989) (R”G) Ltd.
Notes to the Financial Statements

Note 2 - Significant Accounting Policies (cont'd)

C. Disclosure of new IFRS during the period prior to their implementation (cont'd)

2. IAS 27R - Separate Financial Statements

IAS 27R replaces IAS 27 and only deals with separate financial statements. The existing directives regarding separate financial statements remain unchanged, in the framework of IAS 27R.

3. IFRS 12 - Disclosure regarding rights in other entities

IFRS 12 sets forth the disclosures requirements regarding the Company's investee entities, including subsidiaries, joint arrangements, affiliated companies, and structured entities. IFRS 12 expands the disclosure requirements relating to the consideration and assumptions that management used in determining the existence of control, joint control or significant influence in investee entities, and also in determining the type of joint arrangements. IFRS 12 also includes disclosure requirements regarding significant investee entities.

The relevant disclosures will be included in the Company's financial statements on the first adoption of the Standard.

4. IFRS 13 - Measurement of Fair Value

IFRS 13 stipulates assumptions regarding the method of measurement of fair value to the extent that such measurement is required according to the international standards. IFRS 13 defines fair value as the price that would have been received on the sale of an asset, or the price paid on the transfer of a liability in an orderly transaction between market participants at the time of the measurement.

In addition, IFRS 13 details the characteristics of market participants and stipulates that fair value will be based on the assumptions that market participants would have used. In addition, IFRS 13 stipulates that the measurement of fair value will be based on the assumption that the transaction will be carried out in the main market of the asset or liability, or in the absence of a main market, in the most advantageous market.

IFRS 13 stipulates that the use of data which can be observed in the market must be maximized compared to the use of data which cannot be observed in the market. In addition IFRS 13 sets forth levels of fair value according to the source of the data used in determining the fair value:

Level 1: quoted prices (without adjustments) in an active market of identical assets and liabilities.

Level 2: data which are not quoted prices included in Level 1 which can be observed directly or indirectly.

Level 3: Data which are not based on market information which can be observed (valuation techniques without the use of market data which can be observed).

In addition IFRS 13 sets forth certain disclosure requirements.

The new disclosures, and the measurement of assets and liabilities of IFRS 13 required from now on, only relate to periods starting after the date of implementation - from the financial statements for annual periods starting January 1, 2013 or thereafter. Earlier adoption is possible. These new disclosures will not apply to comparative figures.

The relevant disclosures will be included in the Company's financial statements on the first adoption of the Standard.

In the Company's opinion, IFRS 13 is not expected to have a significant effect on the financial statements.

Unitronics (1989) (R"G) Ltd.
Notes to the Financial Statements

Note 3 - Events in the reported period

- A. In March 2011 the Board of Directors has approved adoption of a plan to purchase additional ordinary shares of the Company in an amount not to exceed NIS 1.5 million, replaces the company's previous plan in which the balance of its non-exploited expired. This program was valid until June 30, 2011.

As at 31 March 2011, the Company holds 1,556,239 shares, representing about 13.33% of the issued share capital of the Company, purchased in an amount of NIS 6,365 thousand (as at 31 December 2010, the Company held 1,530,416 shares purchased in an amount of NIS 6,239 thousand representing about 13.1% of the issued share capital of the company).

- B. On March 2011 the Company submitted a Shelf Offering Report pursuant to a Shelf Prospectus dated February 2011 (whose amendment was submitted in March 2011) (hereinafter - "Shelf Offering Report"). In accordance with the Shelf Offering Report, the Company issued NIS 56,442,000 par value bonds (Series 3) in exchange for their par value, repayable in five equal annual installments commencing from March 23, 2013. The bonds are linked to the Israeli Consumer Price index and bear a fixed annual interest of 5.65%, payable in semi-annual equal payments starting from September 23, 2011. The net proceeds of the issuance (net of issuance expenses) amounted to NIS 53,873,000. The annual effective interest rate is 7.12%.

Under the Shelf Offering Report, the Company entered into a trust Deed for bonds (Series 3) dated march 22, 2011 (hereinafter - "the trust Deed") pursuant to which it undertook, inter alia, to comply with financial covenants of a minimum shareholders equity which, for longer than two consecutive quarters, will not fall below NIS 20 million; a financial debt to CAP net, as the term is defined in the Trust Deed, of no more than 80% and to create a pledge in the amount of the annual interest payments on the bonds in favor of the holders of the bonds (Series 3).

Unitronics (1989) (R"G) Ltd.
Notes to the Financial Statements

Note 4 - Business segments

- A. The Group defined the Company's CEO who makes the strategic decisions as the chief operating decision maker, of the Group. The CEO reviews the internal reports of the Group in order to evaluate performance and allocate resources and determines the operating segments based on these reports.

The CEO examines the segments operating performance on the basis of measuring operating income, this measurement basis is not affected by one time expenses in the operating segments, such as the costs of structural change and an impairment in the value of assets, where the impairment in value results from a single one time event. Interest revenues and expenses are not included in the results in each of the operating segments examined by senior management.

- B. The company and its subsidiaries operate in two main business segments.
 - Programmable Logic Controllers systems (hereinafter "The products segment").
 - System integration projects (hereinafter "The system integration projects segment").

	For the three month period ended March 31, 2011	For the three month period ended March 31,		For the year ended December 31, 2010
	2011	2011	2010	2010
	(unaudited)	(unaudited)		(audited)
	(in thousands)			
	Convenience translation into Euro	NIS		
C. Revenues				
Products	4,838	23,947	17,084	77,965
System integration projects	3,300	16,331	19,175	74,598
Other	18	89	91	416
	8,156	40,367	36,350	152,979
B. Segment results				
Products	1,490	7,375	6,407	28,568
System integration projects	294	1,453	2,716	7,787
Other	(16)	(79)	(6)	69
Unallocated corporate expenses	(759)	(3,754)	(2,234)	(14,435)
Operating profit	1,009	4,995	6,883	21,989
Unallocated financing income (expenses)	81	399	(8,068)	(11,010)
Profit (loss) for the period	1,090	5,394	(1,185)	10,979

UNITRONICS (1989) (R"G) LTD.

**Financial data from the consolidated financial
statements attributed to the company itself**

March 31,2011

(Unaudited)



To the shareholders of Unitronics (1989) (R"G) Ltd.

Re: Special review report on separate interim financial information under Regulation 38D to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

Introduction

We reviewed the separate interim financial information presented under Regulation 38D to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 of Unitronics (1989) (R"G) Ltd. (hereinafter – “the Company”) as at March 31, 2011 and for the period of three months then ended. The separate financial information is in the responsibility of the Company's Board of Directors and Management. Our responsibility is to express a conclusion on the separate interim financial information for the interim period, based on our review.

We did not review the separate interim financial information of an affiliated company which the investment in it amount to NIS 1,189 thousands as at March 31, 2011 and which the company's share of its profits amount to NIS 235 thousands for the period of three months then ended. The condensed financial information for the interim period of that company were reviewed by other auditors whose review report was furnished to us and our conclusion, to the extent that they relate to financial information for that company, are based on the review report of the other auditors.

Scope of the review

We prepared our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel “Review of financial information for interim periods prepared by the entity's auditor”. The review of the financial information for interim periods comprises clarifications, mainly with the people responsible for financial and accounting matters, and from adopting analytical and other review procedures. A review is more limited in scope to a much larger extent than an audit performed in accordance with generally accepted auditing standards, and therefore does not enable us to be certain that we will know of all the significant matters which could have been identified in an audit. Consequently, we are not issuing an opinion of an audit.

Conclusion

Based on our review, and on the review report of the other auditors, nothing came to our notice which would cause us to think that the above separate interim financial information is not prepared, in all significant aspects, in accordance regulation 38D of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

Amit, Halfon
Certified Public Accountants (Israel)

Ramat Gan,
May 26, 2011

Unitronics (1989) (R"G) Ltd.

**Assets and liabilities included in the consolidated financial statements
attributed to the company**

	<u>March 31, 2011</u>	<u>March 31, 2011</u>	<u>March 31, 2010</u>	<u>December 31, 2010</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(audited)</u>
		<u>(in thousands)</u>		
	<u>Convenience translation into Euro (1)</u>		<u>NIS</u>	
<u>Current assets</u>				
Cash and cash equivalents	11,691	57,863	17,147	16,468
Restricted cash	645	3,190	-	-
Marketable securities	3,774	18,678	18,565	18,786
Accounts receivable -				
Trade	3,216	15,918	9,481	11,483
Other	395	1,954	222	1,101
Accounts receivable - other - subsidiaries	1,322	6,541	3,417	4,437
Embedded derivatives	30	146	-	-
Inventory	5,447	26,961	15,398	28,298
Inventory - work in progress	1,755	8,687	921	7,461
	<u>28,275</u>	<u>139,938</u>	<u>65,151</u>	<u>88,034</u>
<u>Non-current assets</u>				
Assets less liabilities associated with subsidiaries	176	873	917	899
Long-term deposits	85	423	187	404
Property and equipment, net	4,392	21,740	21,590	21,564
Intangible assets, net	3,413	16,893	14,721	15,717
	<u>8,066</u>	<u>39,929</u>	<u>37,415</u>	<u>38,584</u>
	<u>36,341</u>	<u>179,867</u>	<u>102,566</u>	<u>126,618</u>

haim Shani
Chairman of the Board of
Directors and C.E.O.

Tzvi Livne
Director

Yair Itscovich
Chief Financial Officer

Approved: May 26, 2011.

(1) See note 1C.

Unitronics (1989) (R"G) Ltd.

**Assets and liabilities included in the consolidated financial statements
attributed to the company**

	<u>March 31, 2011</u>	<u>March 31, 2011</u>	<u>March 31, 2010</u>	<u>December 31, 2010</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(audited)</u>
	<u>(in thousands)</u>			
	<u>NIS</u>			
	<u>Convenience translation into Euro (1)</u>			
<u>Current liabilities</u>				
Current maturities of long term loans	882	4,364	1,047	4,202
Current maturities of bonds and convertible bonds	1,229	6,085	14,370	6,032
Accounts payable -				
Trade	4,553	22,535	17,841	25,690
Other	4,647	23,002	12,685	23,300
Warrants	-	-	371	-
Embedded derivatives	354	1,753	6,762	3,951
	<u>11,665</u>	<u>57,739</u>	<u>53,076</u>	<u>63,175</u>
<u>Non-current liabilities</u>				
Loans from banks and others	2,813	13,923	6,203	14,526
Bonds	13,190	65,284	16,228	11,175
Liabilities for benefits to employees, net	337	1,666	1,098	1,583
	<u>16,340</u>	<u>80,873</u>	<u>23,529</u>	<u>27,284</u>
<u>Shareholders' equity</u>				
Share capital	71	352	352	352
Share premium	10,221	50,588	50,576	50,588
Capital reserve from translation of foreign operations	(272)	(1,348)	(840)	(1,176)
Company shares held by the company	(1,286)	(6,365)	(4,972)	(6,239)
Accumulated loss	(398)	(1,972)	(19,155)	(7,366)
	<u>8,336</u>	<u>41,255</u>	<u>25,961</u>	<u>36,159</u>
	<u>36,341</u>	<u>179,867</u>	<u>102,566</u>	<u>126,618</u>

(1) See note 1C.

Unitronics (1989) (R"G) Ltd.

**Revenues and expenses included in the consolidated financial statements
attributed to the company**

	For the three month period ended March 31, <u>2011</u> (unaudited)	For the three month period ended March 31, <u>2011</u> <u>2010</u> (unaudited)		For the year ended December 31, <u>2010</u> (audited)
		(in thousands)		
	Convenience translation into Euro (1)	NIS		
Revenues	6,778	33,546	31,571	131,953
Revenues from subsidiaries	889	4,399	3,223	16,250
Total revenues	7,667	37,945	34,794	148,203
Cost of revenues	5,682	28,123	24,664	108,155
Gross profit	1,985	9,822	10,130	40,048
Development expenses, net	154	763	644	3,194
Selling & marketing expenses	421	2,082	1,417	7,040
General & administrative expenses	396	1,959	1,379	6,733
General & administrative expenses to subsidiaries	25	126	125	613
Capital gain	-	-	-	99
Operating profit	989	4,892	6,565	22,567
Financing income	381	1,886	790	1,884
Financing expenses	311	1,538	8,737	12,986
Profit (loss) for the period	1,059	5,240	(1,382)	11,465
The Company's share of subsidiaries profits (losses)	31	154	197	(486)
Profit (loss) for the period attributed to the company's shareholders	1,090	5,394	(1,185)	10,979

(1) See note 1C.

Unitronics (1989) (R"G) Ltd.

**Comprehensive income included in the consolidated financial statements
attributed to the company**

	For the three month period ended March 31, <u>2011</u> (unaudited)	For the three month period ended March 31, <u>2011</u> <u>2010</u> (unaudited)		For the year ended December 31, <u>2010</u> (audited)
		<u>(in thousands)</u>		
	<u>Convenience translation into Euro (1)</u>	<u>NIS</u>		
Profit (loss) for the period 1,090 5,394 (1,185) 10,979
<u>Other comprehensive income (loss)</u>				
Actuarial loss	-	-	-	(375)
Translation of foreign operation	(34)	(172)	(97)	(433)
Other comprehensive income (loss) for the period (34) (172) (97) (808)
Total comprehensive income (loss) for the period	<u>1,056</u>	<u>5,222</u>	<u>(1,282)</u>	<u>10,171</u>

(1) See note 1C.

Unitronics (1989) (R"G) Ltd.

**Cash Flows included in the consolidated financial statements
attributed to the company**

	For the three month period ended March 31,	For the three month period ended March 31,		For the year ended December 31,
	2011	2011	2010	2010
	(unaudited)	(unaudited)		(audited)
		(in thousands)		
	Convenience translation into Euro (1)	NIS		
<u>Cash flows - operating activities</u>				
Profit (loss) for the year attributed to the company's shareholders	1,090	5,394	(1,185)	10,979
Adjustments necessary to show the cash flows - operating activities (Appendix A)	(1,848)	(9,147)	6,259	4,203
Cash flows provided by (used in) operating activities of the company	(758)	(3,753)	5,074	15,182
Cash flows provided by (used in) operating activities from transactions with subsidiaries	(425)	(2,104)	2,390	369
Cash flows provided by (used in) operating activities	<u>(1,183)</u>	<u>(5,857)</u>	<u>7,464</u>	<u>15,551</u>
<u>Cash flows - investing activities</u>				
investment in marketable securities, net	(15)	(73)	(176)	(16)
Purchase of property and equipment	(114)	(563)	(377)	(1,533)
Sale of property and equipment	-	-	-	115
Investment in restricted cash	(645)	(3,190)	-	-
Investment in long-term deposits	(6)	(32)	(100)	(260)
Repayment of long-term deposits	3	13	89	167
Investment in intangible assets	(411)	(2,032)	(1,024)	(5,010)
Cash flows used in investing activities	<u>(1,188)</u>	<u>(5,877)</u>	<u>(1,588)</u>	<u>(6,537)</u>
<u>Cash flows - financing activities</u>				
Short-term credit, net	-	-	102	-
Receiving long-term loan	-	-	-	14,552
Repayment of long-term loans	(217)	(1,076)	(241)	(2,713)
Repayment of convertible bonds	-	-	-	(8,600)
Bonds issue	10,977	54,331	-	-
Exercise of options	-	-	-	11
Repayment of bonds	-	-	-	(5,939)
Purchase of company shares by the company	(25)	(126)	(1,822)	(3,089)
Cash flows provided by (used in) financing activities	<u>10,735</u>	<u>53,129</u>	<u>(1,961)</u>	<u>(5,778)</u>
Change in cash and cash equivalents	8,364	41,395	3,915	3,236
Cash and cash equivalents at beginning of period	3,327	16,468	13,232	13,232
Cash and cash equivalents at end of period	<u>11,691</u>	<u>57,863</u>	<u>17,147</u>	<u>16,468</u>

(1) See note 1C.

Unitronics (1989) (R"G) Ltd.

**Cash Flows included in the consolidated financial statements
attributed to the company**

	For the three month period ended March 31, <u>2011</u>	For the three month period ended March 31, <u>2011</u> <u>2010</u>	For the year ended December 31, <u>2010</u>
	(unaudited)	(unaudited)	(audited)
	Convenience translation into Euro (1)	(in thousands)	NIS
<u>Appendix A - Adjustments</u>			
necessary to show the cash flows - operating activities			
The Company's share of subsidiaries losses (profits)	(31)	(154)	(194) 486
Depreciation and amortization	279	1,382	1,718 6,321
Loss (Profit) from marketable securities, net	37	181	(270) (651)
Increase in liabilities for benefits to employees, net	17	83	161 271
Capital gain	-	-	- (99)
Reevaluation of warrants	-	-	271 (99)
Exchange rate changes of long-term loans, bonds and convertible bonds	158	784	(602) (399)
Reevaluation of embedded derivatives	(474)	(2,344)	5,261 2,450
Decrease (increase) in accounts receivable - trade	(896)	(4,435)	1,598 (404)
Decrease (increase) in accounts receivable - other	(178)	(884)	244 (770)
Decrease (increase) in inventory	270	1,337	(4,202) (17,102)
Decrease (increase) in inventory - work in progress	(248)	(1,226)	6,914 374
Increase (decrease) in accounts payable - trade	(637)	(3,155)	7,187 15,036
decrease in accounts payable - other	(145)	(716)	(11,827) (1,211)
	<u>(1,848)</u>	<u>(9,147)</u>	<u>6,259</u> <u>4,203</u>
<u>Appendix B - Non-cash operations</u>			
Bonds issue expenses	<u>93</u>	<u>458</u>	<u>-</u> <u>-</u>

(1) See note 1C.

Unitronics (1989) (R"G) Ltd.

Additional information

Note 1 - General

- A. These separate interim financial information have been prepared in accordance with regulation 38D of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 and do not include all the information required in regulation 9C and the 10th addition of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 about separate financial information of the company. These separate interim financial information should be read in conjunction with the Company's audited annual separate financial information as of December 31, 2010 and for the year then ended, and with the condensed consolidated interim financial statement as at March 31, 2011.
- B. Consolidated companies - defined in Note 1D to the consolidated financial statements as at December 31, 2010.
- C. Convenience translation in EURO

For the convenience of the reader, the NIS amounts for the last reported period have been translated into EURO by dividing each NIS amount by the representative rate of exchange of the EURO as at March 31, 2011 (EURO 1 = NIS 4.9495).

The translated EURO amounts presented in these financial statements should not be construed as representing amounts receivable or payable in EURO unless otherwise indicated.

**Chapter D - Quarterly Report on Effectiveness of Internal Control over
Financial Reporting and Disclosure**

- a. **Quarterly report on effectiveness of internal control over financial reporting and disclosure, pursuant to Regulation 38c(a) of Securities Law Regulations (Periodic and Immediate Reports), 1970 ("the regulations")**
- b. **Certification by CEO pursuant to Regulation 38c(d)(1) of the regulations**
- c. **Certification by CFO pursuant to Regulation 38c(d)(2) of the regulations**

Below is the quarterly report on effectiveness of internal control over financial reporting and disclosure, pursuant to Regulation 38c(a) of the regulations:

Management, supervised by the Board of Directors of UNITRONICS (1989) (R"G) Ltd. ("the corporation") is responsible to set and maintain proper internal control over financial reporting and disclosure by the corporation.

For this matter, management consists of:
HAIM SHANI, Company CEO
BAREKET SHANI, Deputy CEO
EYAL SABAN, VP
YAIR ITZKOVICH, CFO

Internal control over financial reporting and disclosure consists of existing controls and procedures at the corporation, designed by the general manager and most senior financial officer, or under their supervision, or by those acting in said capacities, under supervision of the corporation's Board of Directors, which are designed to provide reasonable certainty with respect to reliability of financial reporting and preparation of reports pursuant to statutory provisions, and to ensure that information which the corporation is required to disclose in reports issued pursuant to statutory provisions is collected, processed, summarized and reported on schedule and in the format prescribed by law.

Internal control includes, *inter alia*, controls and procedures designed to ensure that information which the corporation is required to disclose, is collected and submitted to corporate management, including to the general manager and to the most senior financial officer, or to those acting in said capacities, so as to enable decisions to be made at the appropriate time with regard to the required disclosure.

Due to structural limitations, internal control over financial reporting and disclosure is not designed to provide absolute certainty that misrepresentation or omission of information on the reports would be avoided or discovered.

In the annual report on the effectiveness of internal control financial reporting and the disclosure that was attached to the periodic report for the period ended on December 31, 2010 (hereinafter - "the last annual report on internal control"), the board of directors and management assessed the internal control system in the company; based on this assessment, the board of directors and the management concluded that the internal control as mentioned above, as of December 31, 2010, is effective.

Until the reporting date, no event or matter have been brought to the attention of the board of directors and management, which could change the assessment of effectiveness of internal control, as it was included in the annual report on internal control.

As of the reporting date, based on the assessment of effectiveness of internal control in the last annual report on internal control, and based on information brought to the attention of the board of directors and the management as stated above, the internal control is effective;

Certification by CEO pursuant to Regulation 38c(d)(1) of the regulations:

I, HAIM SHANI, certify that:

1. I have reviewed the periodic report of UNITRONICS (1989) (R"G) Ltd. ("the corporation") for the first quarter of 2011 ("the report").
2. To the best of my knowledge, the report is free of any misrepresentation of material fact and is not lacking any representation of material fact required for the representations made there in, under the circumstances in which they were made, to not be misleading in reference to the period covered by the report.
3. To the best of my knowledge, the financial statements and other financial information included in the report properly reflect, in all material aspects, the financial standing, operating results and cash flows of the corporation as of the dates and for the periods to which the report refers.
4. I have disclosed to the corporation's Independent Auditor, Board of Directors and Audit Committee of the corporation's Board of Directors, based on my most current assessment of the internal control over financial reporting and disclosure:
 - a. All significant faults and material weaknesses in specification of operation of internal control over financial reporting and disclosure which may reasonably impact the corporation's capacity to collect, process, summarize or report financial information in a manner which may cast doubt over the reliability of financial reporting and preparation of financial statements pursuant to statutory provisions; and -
 - b. Any fraud, whether or not material, involving the General Manager or any of the direct reports there of, or involving any other employees having a significant capacity in internal control over financial reporting and disclosure;
5. I, on my own or with others at the corporation:
 - a. Have set controls and procedures and/or verified that controls and procedures have been specified and maintained under my supervision, designed to ensure that material information with regard to the corporation, including subsidiaries there of, as defined in Securities Regulations (Annual financial statements), 2010, is brought to my attention by others at the corporation and subsidiaries, specifically during preparation of the report; and -
 - b. Have set controls and procedures and/or verified that controls and procedures have been specified and maintained under my supervision, designed to reasonably ensure the reliability of financial reporting and preparation of the financial statements pursuant to statutory provisions, including pursuant to generally-accepted accounting principles;
 - c. No event or matter that occurred during the period between the last reporting date (quarterly or periodic, as the case may be) and this reporting date has been brought to my attention, which could change the conclusion of the board of directors and the management, regarding the effectiveness of internal control over financial reporting and the company's disclosure.

Certification by CEO pursuant to Regulation 38c(d)(1) of the regulations: (cont'd)

I, HAIM SHANI, certify that: (cont'd)

The foregoing shall not detract from my statutory responsibility, or that of any other person.

May 26, 2011

HAIM SHANI, CEO

Certification by CFO pursuant to Regulation 38c(d)(2) of the regulations

I, YAIR ITZKOVICH, certify that:

1. I have reviewed the interim financial statements and other financial information included in the report for interim periods report of UNITRONICS (1989) (R"G) Ltd. ("the corporation") for the first quarter of 2011 ("the report" or "the report for interim periods").
2. To the best of my knowledge, the interim financial statements and other financial information included in the report for interim periods is free of any misrepresentation of material fact and is not lacking any representation of material fact required for the representations made there in, under the circumstances in which they were made, to not be misleading in reference to the period covered by the report.
3. To the best of my knowledge, the interim financial statements and other financial information included in the report for interim periods properly reflect, in all material aspects, the financial standing, operating results and cash flows of the corporation as of the dates and for the periods to which the report refers.
4. I have disclosed to the corporation's Independent Auditor, Board of Directors and Audit Committee of the corporation's Board of Directors, based on my most current assessment of the internal control over financial reporting and disclosure:
 - a. All significant faults and material weaknesses in specification of operation of internal control over financial reporting and disclosure which may reasonably impact the corporation's capacity to collect, process, summarize or report financial information in a manner which may cast doubt over the reliability of financial reporting and preparation of financial statements pursuant to statutory provisions; and-
 - b. Any fraud, whether or not material, involving the General Manager or any of the direct reports there of, or involving any other employees having a significant capacity in internal control over financial reporting and disclosure;
5. I, on my own or with others at the corporation:
 - a. Have set controls and procedures and/or verified that controls and procedures have been specified and maintained under my supervision, designed to ensure that material information with regard to the corporation, including subsidiaries there of, as defined in Securities Regulations (Annual financial statements), 2010, is brought to my attention by others at the corporation and subsidiaries, specifically during preparation of the report; and-
 - b. Have set controls and procedures and/or verified that controls and procedures have been specified and maintained under my supervision, designed to reasonably ensure the reliability of financial reporting and preparation of the financial statements pursuant to statutory provisions, including pursuant to generally-accepted accounting principles;

Certification by CFO pursuant to Regulation 38c(d)(2) of the regulations (cont'd)

I, YAIR ITZKOVICH, certify that: (cont'd)

- c. No event or matter that occurred during the period between the last reporting date (quarterly or periodic, as the case may be) and this reporting date has been brought to my attention, which could change the conclusion of the board of directors and the management, regarding the effectiveness of internal control over financial reporting and the company's disclosure.

The foregoing shall not detract from my statutory responsibility, or that of any other person.

May 26, 2011

YAIR ITZKOVICH, CFO



Unitronics (1989) (R"G) Ltd.

**Fair Value Valuation of
Embedded Derivatives**

Valuation Date: 31.03.2011



Limitation Conditions

The document was prepared solely for the management of Unitronics It.d. (hereinafter: the "**Management**", "**Unitronics**" or the "**Company**") for the purposes stated herein and should not be relied upon for any other purpose. Unless required by law it shall not be provided to any third party without our prior written consent. In no event, regardless of whether consent has been provided, shall we assume any responsibility to any third party to which the report is disclosed or otherwise made available.

In the course of our analysis, we made use of financial and other information and representations provided to us by the Management or its representatives. We assume such information to be reliable. The more significant sources of this information are identified in the accompanying report. Our conclusions are dependent on such information being complete and accurate in all material respects; however, we have not examined such information and, accordingly, do not express an opinion or any other form of assurance thereon.

While our work has involved an analysis of financial information and accounting records, our engagement does not include an audit in accordance with generally accepted auditing standards of the existing business records of the Company. Accordingly, we assume no responsibility and make no representations with respect to the accuracy or completeness of any information provided by and on behalf of the Management.

Projections relating to future events are based on assumptions, which may not remain valid for the whole of the relevant period. Particularly, projections are based solely on the information that was available on Valuation Dates, and may differ from projections and/or financial results that were made available later on. Consequently this information cannot be relied upon to the same extent as that derived from audited accounts for completed accounting periods. We express no opinion as to how closely the actual results will correspond to those projected by the Company.



The valuation is not a precise science and the conclusions arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgment. Therefore, there is no indisputable single value and we normally express our opinion on the value as falling within a likely range. However, as purpose requires the expression of a single value, we have adopted a value at the mid-point of our valuation range.

Whilst we consider our value/range of values to be both reasonable and defensible based on the information available to us, others may place a different value on the business.

Excluding gross negligence and malice, Financial Immunities and its employees or any other party acting on its behalf, shall not be liable for any loss or damage whatsoever that the Company may suffer, directly or indirectly, as a result of Financial Immunities services.

Without derogating from the aforesaid, in any event whatsoever, Financial Immunities liability shall be limited to the amount of fees payable by the Company to Financial Immunities in respect with providing its services for preparing the Project.

The Company will indemnify Financial Immunities against all claims by third parties which arise out of or in connection with the Project and/or services rendered under this agreement

Finally, the results of our valuation do not constitute a Solvency Opinion or a Fairness Opinion, and should not be relied upon as such. Furthermore, the analysis we perform should not be taken to supplant any procedures that the Company should undertake in connection with the transaction.

Financial Immunities has no personal interest in the Company, and its fees are not contingent on the conclusions of this opinion.

We have not preformed in the past a fair value valuation for the Company.

Sincerely,

 Financial Immunities Ltd.



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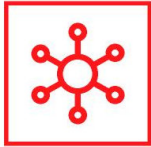
Fair Value Valuation of Embedded Derivatives

1. Background

Unitronics Company focuses on the design, development, manufacture, marketing, sale and support of mass production line automation products and realization of logistic systems automation projects. The Company signed an agreement with a customer. Under the terms of the agreement, the Company undertook to accomplish a project expected to generate to the Company future cash flows denominated in euro. As of this moment, EUR does not represent the functional currency either for Unitronics or for the customer. Company's past experience with the analogous projects indicates that there exists a reasonable probability for deviation of payment terms from the originally scheduled ones.

The table below presents the expected payments as reported by the Company:

Transaction No.	Date of order signing	Inflow in EUR
SO9024592	06/05/2009	€ 10,591,854
SO9024593	06/05/2009,07/12/2009	€ 4,497,003
SO9026912	17/12/2009,13/01/10	€ 1,821,520
SO9026013	29/09/2009,11/12/2009,15/01/2010	€ 1,440,190
SO9027063	23/12/2009	€ 177,000
SO10027583	04/02/2010	€ 137,458
SO10028957	31/05/2010	€ 45,325
SO10029075	10/06/2010	€ 100,880
SO10028772	16/05/2010	€ 1,726,001
SO10029601	28/07/2010	€ 1,158,700
SO10029738	12/08/2010	€ 179,575
SO10030086	19/09/2010	€ 139,421
SO10030459	24/10/2010	€ 48,000
SO10030873	28/11/2010	€ 77,649
SO10030874	28/11/2010	€ 234,260
SO10031217	22/12/2010	€ 21,814
SO10031195	21/12/2010	€ 28,093
SO10030475	25/10/2010	€ 74,817
SO10031025	07/12/2010	€ 41,453
SO10030653	08/11/2010	€ 33,000
SO11033018	16/03/2011	€ 24,179
SO11033017	16/03/2011	€ 32,626
Total		€ 22,630,818



The following table reports the expected inflows in ILS as of the date of agreement signing and the valuation date (31/03/2011):

מס' הזמנה	Total Cumulative Actual Amount in EUR as of 31/03/2011	Total Cumulative Actual Amount in ILS as of 31/03/2011	2009 Year		Previous Year		Current Year	
			Total Expected Amount in ILS	Total Actual Amount in ILS	Total Expected Amount in ILS	Total Actual Amount in ILS	Total Expected Amount in ILS	Total Actual Amount in ILS
SO9024592	€ 8,367,565	₪ 41,403,224	₪ 14,581,600	₪ 14,746,628	₪ 29,853,079	₪ 26,656,597	₪ 1,768,437	₪ 1,599,056
SO9024593	€ 4,497,003	₪ 17,392,306	₪ 6,921,908	₪ 6,875,196	₪ 11,706,174	₪ 10,517,110	₪ 6,231,103	₪ 5,588,291
SO9026013	€ 1,296,171	₪ 6,631,183	₪ 1,385,397	₪ 1,395,250	₪ 5,672,054	₪ 5,235,933	₪ 0	₪ 0
SO9027063	€ 177,000	₪ 683,235	₪ 0	₪ 0	₪ 719,853	₪ 683,235	₪ 239,194	₪ 223,383
SO9026912	€ 1,301,640	₪ 6,657,687	₪ 0	₪ 0	₪ 7,079,185	₪ 6,657,687	₪ 0	₪ 0
SO10027583	€ 123,737	₪ 566,248	₪ 0	₪ 0	₪ 582,336	₪ 566,248	₪ 56,050	₪ 54,827
SO10028957	€ 36,260	₪ 84,613	₪ 0	₪ 0	₪ 86,191	₪ 84,613	₪ 86,299	₪ 89,811
SO10029075	€ 60,528	₪ 302,640	₪ 0	₪ 0	₪ 280,644	₪ 302,640	₪ 0	₪ 0
SO10029738	€ 163,642	₪ 796,804	₪ 0	₪ 0	₪ 772,824	₪ 796,804	₪ 24,712	₪ 25,158
SO10028772	€ 1,047,869	₪ 5,139,187	₪ 0	₪ 0	₪ 4,955,038	₪ 5,139,187	₪ 0	₪ 0
SO10029601	€ 869,025	₪ 2,011,463	₪ 0	₪ 0	₪ 2,011,463	₪ 2,011,463	₪ 2,294,912	₪ 2,338,778
SO10030086	€ 13,942	₪ 0	₪ 0	₪ 0	₪ 0	₪ 0	₪ 67,949	₪ 70,383
SO10030459	€ 0	₪ 0	₪ 0	₪ 0	₪ 0	₪ 0	₪ 0	₪ 0
SO10030873	€ 38,825	₪ 182,273	₪ 0	₪ 0	₪ 182,273	₪ 182,273	₪ 0	₪ 0
SO10030874	€ 117,130	₪ 549,902	₪ 0	₪ 0	₪ 549,902	₪ 549,902	₪ 0	₪ 0
SO10031217	€ 0	₪ 0	₪ 0	₪ 0	₪ 0	₪ 0	₪ 0	₪ 0
SO10031195	€ 0	₪ 0	₪ 0	₪ 0	₪ 0	₪ 0	₪ 0	₪ 0
SO10030475	€ 52,371	₪ 237,162	₪ 0	₪ 0	₪ 237,162	₪ 237,162	₪ 18,838	₪ 18,789
SO10031025	€ 16,581	₪ 0	₪ 0	₪ 0	₪ 0	₪ 0	₪ 80,132	₪ 80,240
SO10030653	€ 24,750	₪ 0	₪ 0	₪ 0	₪ 0	₪ 0	₪ 124,280	₪ 124,916
SO11033018	€ 0	₪ 0	₪ 0	₪ 0	₪ 0	₪ 0	₪ 0	₪ 0
SO11033017	€ 0	₪ 0	₪ 0	₪ 0	₪ 0	₪ 0	₪ 0	₪ 0
	€ 18,204,038	₪ 82,637,927	₪ 22,888,905	₪ 23,017,074	₪ 64,688,177	₪ 59,620,853	₪ 10,991,908	₪ 10,213,631



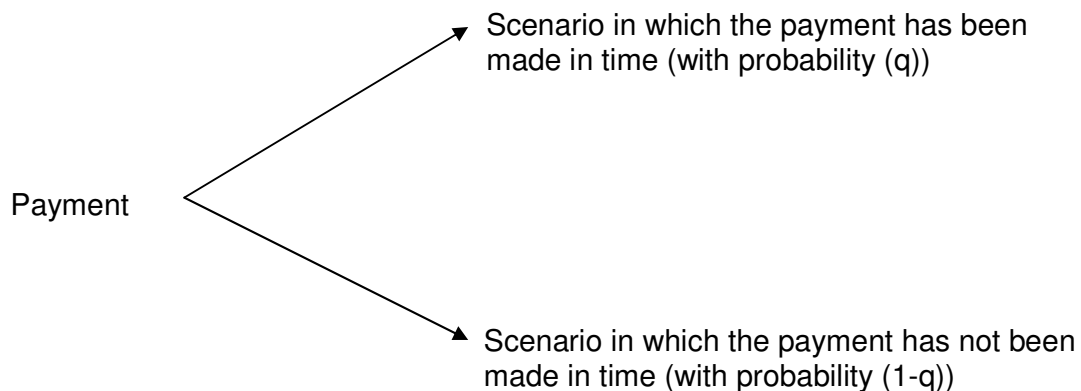
2. Methodology

An embedded derivative is a derivative that is embedded in buy or sales contracts of products or services. In accounting literature, those contracts are also known as "Host Contracts". In Israel, embedded derivatives are often a part of transactions denominated in a currency, which is not the functional currency of a reporting company and/or of transaction counterpart's company (for example, foreign currency derivatives in such transactions as purchases from suppliers, sales to customers, or real estate rent contracts).

According to IAS 39 – "Financial Instruments: Recognition and Management", embedded derivatives have to be separated from host contracts, and treated as separate derivative financial instruments. In particular, embedded derivatives have to be evaluated with respect to their fair value estimated against corresponding profits and losses.

3. Calculation Model

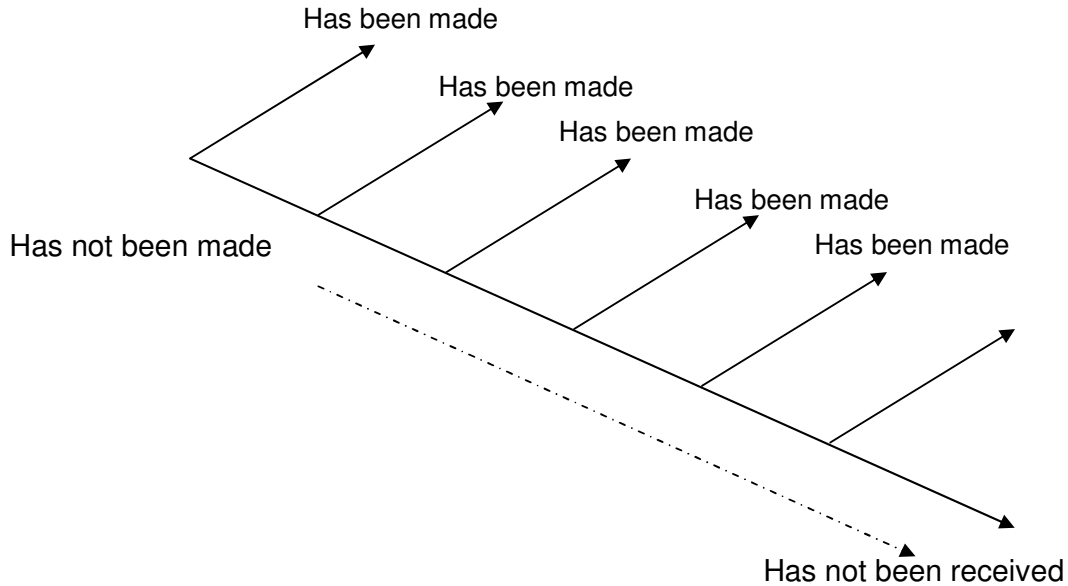
We derive our calculation model from the decision making model. Since the exact date of payment is unknown and there is a probability for a delay, we chose to use the decision tree algorithm.



In accordance with the data obtained from the Company, the probability to each of the scenarios to occur is assumed equal (i. e. 50% probability for each of the scenarios).



The following figure illustrates possible implementation of the introduced above model. More specifically, the figure shows that if payment is made at originally scheduled date, then no delay will be considered. In contrast, if the payment has not been made in time, we will move to the next point (of the model) – possible payment date next to the initially scheduled one - and then reexamine whether or not the payment is made.



4. ILS Cash Flow Calculations

A. Applying decision tree algorithm, we first compute forward rate, which afterward is used for calculations of ILS payment equivalent as of the agreement inception date. The forward rate calculations are based on the assumption that probability of not receiving payment in time is equal to 50%. Based on its past experience with the similar projects, the Company estimates possible delay in payment as of up to three months (with respect to the payment terms set forth in the project's schedule). To examine the probability of delay in the payment, we test a number of possible scenarios with different delay lengths (two weeks, month, and so on up to three months, increasing the lag period in 15 days each time). In order to estimate the forward rate, we use the forward rates as of agreement inception dates for each of the future scenario terms (06/05/2009, 29/09/2009, 07/12/2009, 11/12/2009,



17/12/2009, 23/12/2009, 13/01/2010, 15/01/2010, 04/02/2010, 24/03/2010/, 16/05/2010, 31/05/2010, 10/06/2010, 28/07/2010, 12/08/2010, 19/09/2010, 24/10/2010, 25/10/2010, 08/11/2010, 28/11/2010, 07/12/2010, 21/12/2010, 22/12/2010, 16/03/2011). For example: for the payment expected on 31/05/2010 there is a probability of 50% to be made on this date (in accordance with the future rate determined for the corresponding date), and a probability of 50% to be made during the next three months following after the initially scheduled date (according to the Company).

B. After we estimated the constant ILS inflow for each payment date, we estimate the forward rate for 31/03/2011 (the valuation date). We compute the forward rate for the valuation date in a similar way we do for the agreement inception date. Since such market parameters as interest rate, exchange rate, and others changed over the period between the agreement inception date and the valuation date, values of forward rates for those two dates are not the same.

C. The following table reports payments in ILS for a corresponding agreement inception date:

Transaction	Date of order signing	Inflow in ILS
SO9024592	06/05/2009	₪58,623,888
SO9024593	06/05/2009,07/12/2009	₪24,859,185
SO9026912	17/12/2009,13/01/10	₪9,906,487
SO9026013	29/09/2009,11/12/2009,15/01/2010	₪7,845,629
SO9027063	23/12/2009	₪959,047
SO10027583	04/02/2010	₪709,135
SO10028957	31/05/2010	₪215,686
SO10029075	10/06/2010	₪467,929
SO10028772	16/05/2010	₪8,163,649
SO10029601	28/07/2010	₪5,742,040
SO10029738	12/08/2010	₪875,331
SO10030086	19/09/2010	₪679,766
SO10030459	24/10/2010	₪242,121
SO10030873	28/11/2010	₪371,400
SO10030874	28/11/2010	₪1,120,480
SO10031217	22/12/2010	₪102,762
SO10031195	21/12/2010	₪132,881
SO10030475	25/10/2010	₪369,045
SO10031025	07/12/2010	₪200,295
SO10030653	08/11/2010	₪165,712
SO11033018	16/03/2011	₪119,904
SO11033017	16/03/2011	₪161,793
Total		₪122,034,163



D. The following tables summarize the data used for the forward rate and ILS payment calculations for corresponding agreement inception date.

Date: 06/05/2009.

	1 Day	1 Week	1 Month	2 Month	3 Month	6 Month	9 Month	1 Year	18 Month	2 Year	3 Year	4 Year	5 Year
Forward Points:	0.00015	0.00007	0.00006	-0.00035	-0.00043	0.00262	0.00763	0.01511	0.04709	0.09596	0.1828	0.27091	0.35537
EUR Depo Rate:	0.375	0.68	0.85	1.13	1.39	1.59	1.51	1.65	1.803	1.956	2.315	2.606	2.846
ILS Depo Rate:	0.711	0.755	0.874	1.108	1.379	1.707	1.716	1.951	2.406	2.866	3.468	3.882	4.18

06/05/2009		
(Original) Date of Payment	Forward Rate	Remarks/Approx Time Period
15/01/2010	5.5147	
01/03/2010	5.5181	
01/04/2010	5.5212	
01/05/2010	5.5245	
01/08/2010	5.5376	Six Months
01/07/2010	5.5340	
01/07/2010	5.5244	Four Months
01/10/2010	5.5367	Six Months
01/11/2010	5.5583	
01/11/2010	5.5583	
01/12/2010	5.5654	
23/12/2010	5.5563	Five Months
23/03/2011	5.5953	

Date: 29/09/2009.

	1 Day	1 Week	1 Month	2 Month	3 Month	6 Month	9 Month	1 Year	18 Month	2 Year	3 Year	4 Year	5 Year
Forward Points:	-0.00005	-0.00033	-0.00221	-0.00254	-0.00383	-0.00459	-0.00208	0.00372	0.03468	0.08638	0.17453	0.27354	0.37392
EUR Depo Rate:	0.28	0.29	0.31	0.57	0.78	1.07	1.03	1.15	1.406	1.666	2.157	2.431	2.697
ILS Depo Rate:	-0.038	-0.015	-0.146	0.30	0.523	0.916	0.993	1.235	1.852	2.484	3.257	3.718	4.097

29/09/2009	
(Original) Date of Payment	Forward Rate
31/01/2010	5.4864
31/07/2010	5.4894
31/03/2011	5.5246



Date: 07/12/2009.

	1 Day	1 Week	1 Month	2 Month	3 Month	6 Month	9 Month	1 Year	18 Month	2 Year	3 Year	4 Year	5 Year
Forward Points:	0.00002	0.00011	-0.00035	-0.00212	-0.00323	-0.00524	-0.00802	-0.01053	-0.00391	0.01073	0.06152	0.12813	0.2075
EUR Depo Rate:	0.32	0.25	0.42	0.45	0.60	0.92	1.10	1.19	1.482	1.777	2.226	2.445	2.683
ILS Depo Rate:	0.424	0.351	0.357	0.234	0.375	0.745	0.927	1.017	1.456	1.899	2.628	3.057	3.467

07/12/2009		
(Original) Date of Payment	Forward Rate	Remarks/Approx Time Period
01/03/2010	5.6343	
01/04/2010	5.6325	
01/05/2010	5.6313	
01/07/2010	5.6269	Four Months
01/08/2010	5.6180	Six Months
01/10/2010	5.6152	Six Months

Date: 11/12/2009.

	1 Day	1 Week	1 Month	2 Month	3 Month	6 Month	9 Month	1 Year	18 Month	2 Year	3 Year	4 Year	5 Year
Forward Points:	-0.00001	-0.00005	-0.0012	-0.00176	-0.00256	-0.00334	-0.00492	-0.00642	0.01018	0.04028	0.11647	0.21267	0.31777
EUR Depo Rate:	0.33	0.29	0.40	0.56	0.79	1.06	1.10	1.28	1.511	1.744	2.136	2.425	2.674
ILS Depo Rate:	0.27	0.245	0.149	0.383	0.613	0.953	0.995	1.18	1.657	2.139	2.879	3.431	3.869

11/12/2009	
(Original) Date of Payment	Forward Rate
31/03/2010	5.5551
31/07/2010	5.5511
31/03/2011	5.5564

Date: 17/12/2009.

	1 Day	1 Week	1 Month	2 Month	3 Month	6 Month	9 Month	1 Year	18 Month	2 Year	3 Year	4 Year	5 Year
Forward Points:	0.00	-0.00002	-0.00047	-0.00085	-0.00138	-0.00093	-0.00193	-0.00327	0.01129	0.03691	0.10283	0.1899	0.28592
EUR Depo Rate:	0.305	0.22	0.33	0.46	0.76	0.53	1.18	1.32	1.49	1.66	2.042	2.347	2.605
ILS Depo Rate:	0.301	0.204	0.234	0.376	0.669	0.503	1.149	1.277	1.651	2.028	2.71	3.26	3.697

17/12/2009		
(Original) Date of Payment	Forward Rate	Remarks/Approx Time Period
30/05/2010	5.4517	
30/05/2010	5.4466	Five Months
30/07/2010	5.4499	
15/08/2010	5.4495	
03/10/2010	5.4342	Nine Months
19/01/2011	5.4439	Five and a half Months
19/04/2011	5.4544	



Date: 23/12/2009.

	1 Day	1 Week	1 Month	2 Month	3 Month	6 Month	9 Month	1 Year	18 Month	2 Year	3 Year	4 Year	5 Year
Forward Points:	0.00001	0.00007	-0.00011	-0.00074	-0.00116	-0.00014	-0.00172	-0.00429	0.02005	0.05685	0.14635	0.24947	0.36269
EUR Depo Rate:	0.29	0.22	0.33	0.47	0.75	1.03	1.16	1.30	1.497	1.695	2.094	2.445	2.728
ILS Depo Rate:	0.367	0.29	0.311	0.393	0.677	1.039	1.134	1.238	1.767	2.248	3.029	3.631	4.098

23/12/2009		
(Original) Date of Payment	Forward Rate	Remarks/Approx Time Period
31/03/2010	5.4202	
31/05/2010	5.4055	Eight Months

Date: 13/01/2010.

	1 Day	1 Week	1 Month	2 Month	3 Month	6 Month	9 Month	1 Year	18 Month	2 Year	3 Year	4 Year	5 Year
Forward Points:	0.00014	0.00024	0.00198	0.0023	0.00329	0.0071	0.01108	0.01546	0.03999	0.07317	0.15718	0.26377	0.3637
EUR Depo Rate:	0.30	0.40	0.47	0.495	0.575	0.85	1.10	1.20	1.441	1.694	2.10	2.414	2.676
ILS Depo Rate:	0.544	0.638	0.90	0.768	0.833	1.131	1.395	1.507	1.969	2.411	3.121	3.69	4.149

13/01/2010		
(Original) Date of Payment	Forward Rate	Remarks/Approx Time Period
30/05/2010	5.3426	
30/05/2010	5.3383	Five Months
15/08/2010	5.3446	
19/01/2011	5.3544	
19/04/2011	5.3647	

Date: 15/01/2010.

	1 Day	1 Week	1 Month	2 Month	3 Month	6 Month	9 Month	1 Year	18 Month	2 Year	3 Year	4 Year	5 Year
Forward Points:	0.00006	0.00047	0.00184	0.00265	0.00316	0.00769	0.01055	0.01271	0.03715	0.07004	0.14992	0.25249	0.3645
EUR Depo Rate:	0.45	0.325	0.35	0.375	0.475	0.86	1.04	1.16	1.397	1.639	2.052	2.369	2.631
ILS Depo Rate:	0.838	0.79	0.764	0.689	0.718	1.165	1.323	1.419	1.891	2.331	3.03	3.598	4.041

15/01/2010	
(Original) Date of Payment	Forward Rate
30/03/2010	5.3028
30/07/2010	5.3058
31/03/2011	5.3182



Date: 04/02/2010.

	1 Day	1 Week	1 Month	2 Month	3 Month	6 Month	9 Month	1 Year	18 Month	2 Year	3 Year	4 Year	5 Year
Forward Points:	0.00001	0.00007	0.00276	0.00511	0.00766	0.01558	0.02516	0.03607	0.05308	0.06577	0.11818	0.19141	0.27068
EUR Depo Rate:	0.29	0.305	0.395	0.445	0.485	0.825	1.10	1.19	1.388	1.589	1.958	2.27	2.505
ILS Depo Rate:	0.208	0.375	1.102	1.068	1.091	1.448	1.776	1.918	2.107	2.261	2.762	3.241	3.599

04/02/2010		
(Original) Date of Payment	Forward Rate	Remarks/Approx Time Period
31/03/2010	5.1562	
31/03/2010	5.1516	Thirteen Months
31/05/2010	5.1608	Eight Months
01/06/2010	5.1639	
01/08/2010	5.1642	Nine Months
01/09/2010	5.1704	

Date: 24/03/2010.

	1 Day	1 Week	1 Month	2 Month	3 Month	6 Month	9 Month	1 Year	18 Month	2 Year	3 Year	4 Year	5 Year
Forward Points:	0.00042	0.0009	0.00181	0.00385	0.00635	0.0138	0.02205	0.03203	0.04968	0.06851	0.12498	0.19499	0.26943
EUR Depo Rate:	0.28	0.235	0.365	0.405	0.455	0.82	1.03	1.18	1.319	1.459	1.818	2.133	2.413
ILS Depo Rate:	0.902	0.836	0.796	0.872	0.955	1.378	1.632	1.841	2.006	2.171	2.683	3.143	3.527

24/03/2010	
(Original) Date of Payment	Forward Rate
31/07/2010	5.0034
30/09/2010	5.0076
31/03/2011	5.0234

Date: 16/05/2010.

	1 Day	1 Week	1 Month	2 Month	3 Month	6 Month	9 Month	1 Year	18 Month	2 Year	3 Year	4 Year	5 Year
Forward Points:	0.00007	0.00027	0.00107	0.00282	0.00532	0.01496	0.02399	0.03476	0.06839	0.11256	0.20127	0.28795	0.37868
EUR Depo Rate:	0.285	0.305	0.38	0.48	0.63	0.97	1.09	1.11	1.172	1.234	1.533	1.86	2.167
ILS Depo Rate:	0.554	0.571	0.655	0.843	1.092	1.623	1.791	1.879	2.172	2.463	2.991	3.421	3.804

16/05/2010		
(Original) Date of Payment	Forward Rate	Remarks/Approx Time Period
15/06/2010	4.7106	
15/09/2010	4.7066	Ten Months
15/10/2010	4.7198	
15/02/2011	4.7311	
03/04/2011	4.7366	
03/07/2011	4.7501	



Date: 31/05/2010.

	1 Day	1 Week	1 Month	2 Month	3 Month	6 Month	9 Month	1 Year	18 Month	2 Year	3 Year	4 Year	5 Year
Forward Points:	0.00003	0.00029	0.00112	0.00117	0.00501	0.00983	0.01542	0.02346	0.05165	0.09153	0.16863	0.25835	0.35614
EUR Depo Rate:	0.30	0.31	0.475	0.47	0.63	0.915	1.025	1.16	1.235	1.311	1.582	1.842	2.093
ILS Depo Rate:	0.068	0.63	0.767	0.623	1.056	1.34	1.474	1.673	1.98	2.292	2.783	3.217	3.60

31/05/2010	
(Original) Date of Payment	Forward Rate
31/07/2010	4.7540
30/11/2010	4.7600
28/02/2011	4.7652

Date: 10/06/2010.

	1 Day	1 Week	1 Month	2 Month	3 Month	6 Month	9 Month	1 Year	18 Month	2 Year	3 Year	4 Year	5 Year
Forward Points:	0.00004	0.00018	0.00125	0.00359	0.00468	0.01084	0.01742	0.02537	0.05356	0.09229	0.17258	0.25482	0.33587
EUR Depo Rate:	0.295	0.29	0.415	0.47	0.625	0.935	1.08	1.20	1.231	1.262	1.538	1.832	2.104
ILS Depo Rate:	0.014	0.497	0.747	0.922	1.031	1.413	1.598	1.767	2.02	2.274	2.794	3.216	3.56

10/06/2010		
(Original) Date of Payment	Forward Rate	Remarks/Approx Time Period
31/07/2010	4.6344	
31/10/2010	4.6388	
31/12/2010	4.6369	Six Months
31/03/2011	4.6487	

Date: 28/07/2010.

	1 Day	1 Week	1 Month	2 Month	3 Month	6 Month	9 Month	1 Year	18 Month	2 Year	3 Year	4 Year	5 Year
Forward Points:	0.00043	0.00092	0.00342	0.00546	0.00597	0.01119	0.01528	0.01915	0.03185	0.0463	0.08169	0.14202	0.19368
EUR Depo Rate:	0.465	0.435	0.55	0.67	0.775	1.015	1.26	1.495	1.467	1.44	1.679	1.928	2.171
ILS Depo Rate:	1.54	1.408	1.372	1.34	1.271	1.478	1.694	1.91	1.922	1.934	2.259	2.679	2.989

28/07/2010	
(Original) Date of Payment	Forward Rate
31/01/2011	4.9512
28/02/2011	4.9524
30/04/2011	4.9545
31/07/2011	4.9586



Date: 12/08/2010.

	1 Day	1 Week	1 Month	2 Month	3 Month	6 Month	9 Month	1 Year	18 Month	2 Year	3 Year	4 Year	5 Year
Forward Points:	0.00012	0.00064	0.00238	0.00419	0.00537	0.01119	0.01736	0.02459	0.05063	0.08208	0.14672	0.21328	0.2902
EUR Depo Rate:	0.36	0.585	0.455	0.525	0.935	1.07	1.13	1.42	1.35	1.28	1.515	1.687	1.907
ILS Depo Rate:	1.276	1.274	1.036	1.031	1.387	1.543	1.626	1.952	2.068	2.147	2.544	2.804	3.119

12/08/2010	
(Original) Date of Payment	Forward Rate
31/08/2010	4.8701
31/10/2010	4.8726
31/01/2011	4.8772
30/04/2011	4.8827

Date: 19/09/2010.

	1 Day	1 Week	1 Month	2 Month	3 Month	6 Month	9 Month	1 Year	18 Month	2 Year	3 Year	4 Year	5 Year
Forward Points:	0.0001	0.00084	0.00226	0.00406	0.0058	0.0101	0.00932	0.01782	0.03683	0.06299	0.11568	0.18465	0.26553
EUR Depo Rate:	0.405	0.375	0.52	0.61	0.83	1.15	1.17	1.41	1.462	1.515	1.621	1.827	2.03
ILS Depo Rate:	1.197	1.167	1.093	1.112	1.322	1.586	1.446	1.802	1.996	2.193	2.444	2.807	3.152

19/09/2010	
(Original) Date of Payment	Forward Rate
30/11/2010	4.8737
31/01/2011	4.8759

Date: 24/10/2010.

	1 Day	1 Week	1 Month	2 Month	3 Month	6 Month	9 Month	1 Year	18 Month	2 Year	3 Year	4 Year	5 Year
Forward Points:	0.00004	0.00031	0.00021	-0.00035	-0.00118	-0.00126	-0.00069	0.00099	0.01501	0.03789	0.07913	0.13638	0.21277
EUR Depo Rate:	0.405	0.725	0.775	0.815	0.94	1.18	1.36	1.51	1.567	1.623	1.736	1.92	2.11
ILS Depo Rate:	0.691	1.015	0.834	0.786	0.86	1.146	1.361	1.551	1.789	2.024	2.286	2.625	2.983

24/10/2010		
(Original) Date of Payment	Forward Rate	Remarks/Approx Time Period
31/12/2010	5.0442	Six Months

Date: 25/10/2010.

	1 Day	1 Week	1 Month	2 Month	3 Month	6 Month	9 Month	1 Year	18 Month	2 Year	3 Year	4 Year	5 Year
Forward Points:	0.00006	0.00045	0.00001	-0.0007	-0.00118	-0.00131	-0.00113	0.00052	0.01432	0.03754	0.07736	0.13887	0.22117
EUR Depo Rate:	0.405	0.615	0.785	0.825	0.955	1.15	1.35	1.5	1.569	1.638	1.775	1.914	2.106
ILS Depo Rate:	0.873	1.086	0.798	0.753	0.875	1.113	1.338	1.532	1.783	2.037	2.317	2.635	3.016

25/10/2010	
(Original) Date of Payment	Forward Rate
30/01/2011	5.0369
28/02/2011	5.0367
30/04/2011	5.0362
03/07/2011	5.0361



Date: 08/11/2010.

	1 Day	1 Week	1 Month	2 Month	3 Month	6 Month	9 Month	1 Year	18 Month	2 Year	3 Year	4 Year	5 Year
Forward Points:	0.00011	0.00039	0.00058	0.0002	0.00031	0.00027	0.0035	0.00762	0.01938	0.03703	0.06912	0.11845	0.19014
EUR Depo Rate:	0.405	0.89	0.755	1.055	1.06	1.25	1.25	1.44	1.525	1.612	1.781	1.903	2.062
ILS Depo Rate:	0.814	1.306	0.906	1.093	1.099	1.278	1.361	1.613	1.805	2.003	2.265	2.519	2.845

08/11/2010	
(Original) Date of Payment	Forward Rate
31/01/2011	5.0215
28/02/2011	5.0212
30/04/2011	5.0211
31/07/2011	5.0234

Date: 28/11/2010.

	1 Day	1 Week	1 Month	2 Month	3 Month	6 Month	9 Month	1 Year	18 Month	2 Year	3 Year	4 Year	5 Year
Forward Points:	0.00011	0.00086	0.00159	0.00209	0.00262	0.00616	0.01313	0.02288	0.03885	0.05814	0.09598	0.13954	0.20649
EUR Depo Rate:	0.405	0.45	0.705	0.95	1.05	1.24	1.34	1.46	1.552	1.646	1.831	2.087	2.347
ILS Depo Rate:	1.217	1.263	1.112	1.216	1.283	1.512	1.723	1.957	2.114	2.273	2.522	2.841	3.234

28/11/2010	
(Original) Date of Payment	Forward Rate
31/03/2011	4.8713

Date: 07/12/2010.

	1 Day	1 Week	1 Month	2 Month	3 Month	6 Month	9 Month	1 Year	18 Month	2 Year	3 Year	4 Year	5 Year
Forward Points:	0.00005	0.00009	0.00022	0.00052	0.001	0.00397	0.0092	0.01651	0.03661	0.06422	0.11282	0.20423	0.25323
EUR Depo Rate:	0.405	0.625	0.82	0.85	0.98	1.24	1.38	1.52	1.602	1.682	1.843	2.153	2.444
ILS Depo Rate:	0.8	0.728	0.884	0.926	1.078	1.424	1.657	1.891	2.138	2.382	2.661	3.254	3.538

07/12/2010		
(Original) Date of Payment	Forward Rate	Remarks/Approx Time Period
07/12/2010	4.8273	Seven Months
15/01/2011	4.8327	
30/01/2011	4.8327	
15/02/2011	4.8329	
30/04/2011	4.8344	
30/07/2011	4.8385	

Date: 21/12/2010.

	1 Day	1 Week	1 Month	2 Month	3 Month	6 Month	9 Month	1 Year	18 Month	2 Year	3 Year	4 Year	5 Year
Forward Points:	0.00012	0.00089	0.00205	0.00273	0.0029	0.00672	0.01243	0.01943	0.03575	0.05609	0.10248	0.17019	0.2499
EUR Depo Rate:	0.405	0.7	0.78	0.9	1.02	1.235	1.38	1.37	1.53	1.688	2.004	2.304	2.557
ILS Depo Rate:	1.336	1.694	1.287	1.255	1.284	1.54	1.755	1.808	2.062	2.314	2.766	3.248	3.659

21/12/2010	
(Original) Date of Payment	Forward Rate
28/02/2011	4.7300



Date: 22/12/2010.

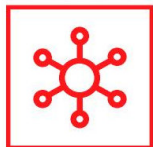
	1 Day	1 Week	1 Month	2 Month	3 Month	6 Month	9 Month	1 Year	18 Month	2 Year	3 Year	4 Year	5 Year
Forward Points:	0.0003	0.00076	0.00217	0.00279	0.00328	0.00758	0.01416	0.02214	0.04081	0.06484	0.11755	0.19416	0.27851
EUR Depo Rate:	0.405	0.435	0.535	0.695	0.865	1.155	1.18	1.32	1.48	1.641	1.965	2.245	2.504
ILS Depo Rate:	1.198	1.288	1.085	1.055	1.16	1.496	1.598	1.811	2.085	2.361	2.834	3.314	3.725

22/12/2010	
(Original) Date of Payment	Forward Rate
28/02/11	4.7108

Date: 16/03/2011.

	1 Day	1 Week	1 Month	2 Month	3 Month	6 Month	9 Month	1 Year	18 Month	2 Year	3 Year	4 Year	5 Year
Forward Points:	0.0008	0.00109	0.00333	0.0061	0.00646	0.0104	0.0104	0.00796	0.02421	0.04812	0.10976	0.19695	0.31323
EUR Depo Rate:	0.405	0.695	0.87	0.92	1.08	1.42	1.695	1.845	1.962	2.076	2.308	2.546	2.757
ILS Depo Rate:	1.876	1.848	1.625	1.669	1.602	1.856	1.999	2.033	2.319	2.598	3.089	3.584	4.06

16/03/2011	
(Original) Date of Payment	Forward Rate
30/04/11	4.9590



E. The following tables present the data used for the forward rate and ILS payment calculations for the valuation date (31/03/2011):

	1 Day	1 Week	1 Month	2 Month	3 Month	6 Month	9 Month	1 Year	18 Month	2 Year	3 Year	4 Year	5 Year
Forward Points:	0.00021	0.00148	0.00332	0.00589	0.00894	0.0137	0.01573	0.01584	0.03272	0.05551	0.12523	0.21388	0.33321
EUR Depo Rate:	0.405	0.7	1.11	1.17	1.28	1.61	1.84	2.04	2.193	2.346	2.652	2.897	3.082
ILS Depo Rate:	1.992	2.282	1.946	1.881	2.02	2.192	2.295	2.396	2.675	2.953	3.552	4.035	4.483

31/03/2011				
Transaction No.	Order Date	(Original) Date of Payment	(Revised) Date	Forward Rate
SO9024592	06/05/2009		23/12/2010	4.9487
			30/05/2011	
			23/03/2011	4.9467

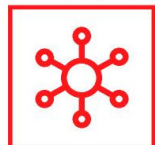
31/03/2011				
Transaction No.	Order Date	(Original) Date of Payment	(Revised) Date	Forward Rate
SO9026013	29/09/2009		31/03/2011	4.9445
			31/05/2011	
	11/12/2009		31/03/2011	4.9445
			31/05/2011	
	15/01/2010		31/03/2011	4.9445
			31/05/2011	
	24/03/2010		31/03/2011	4.9445
			31/05/2011	

31/03/2011				
Transaction No.	Order Date	(Original) Date of Payment	(Revised) Date	Forward Rate
SO10027583	04/02/2010		31/03/2010	4.9485
			30/04/2011	
			01/08/2010	4.9488
			30/04/2011	

31/03/2011				
Transaction No.	Order Date	(Original) Date of Payment	(Revised) Date	Forward Rate
SO9026912	17/12/2009		03/10/2010	4.9446
			30/06/2011	
			19/01/2011	4.9474
			30/05/2011	
			19/04/2011	4.9434
			30/06/2011	
	13/01/2010		19/01/2011	4.9511
			30/04/2011	
			19/04/2011	4.9434
			19/04/2011	

31/03/2011				
Transaction No.	Order Date	(Original) Date of Payment	(Revised) Date	Forward Rate
SO10028772	16/05/2010		15/09/2010	4.9472
			30/06/2011	
			15/02/2011	4.9483
			30/04/2011	
			03/04/2011	4.9447
			03/04/2011	
			03/07/2011	4.9485
			03/07/2011	

31/03/2011				
Transaction No.	Order Date	(Original) Date of Payment	(Revised) Date	Forward Rate
SO10028957	31/05/2010		28/02/2011	4.9500
			30/04/2011	



31/03/2011				
Transaction No.	Order Date	(Original) Date of Payment	(Revised) Date	Forward Rate
SO10029075	10/06/2010	31/12/2010	30/06/2011	4.9445
		31/03/2011	30/05/2011	4.9445

31/03/2011				
Transaction No.	Order Date	(Original) Date of Payment	(Revised) Date	Forward Rate
SO10029601	28/07/2010	30/04/2011	30/04/2011	4.9441
		31/07/2011	31/07/2011	4.9498

31/03/2011				
Transaction No.	Order Date	(Original) Date of Payment	(Revised) Date	Forward Rate
SO10029738	12/08/2010	30/04/2011	30/04/2011	4.9441

31/03/2011				
Transaction No.	Order Date	(Original) Date of Payment	(Revised) Date	Forward Rate
SO10030086	19/09/2010	31/01/2011	30/04/2011	4.9496

31/03/2011				
Transaction No.	Order Date	(Original) Date of Payment	(Revised) Date	Forward Rate
SO10030459	24/10/2010	31/12/2010	30/06/2011	4.9445

31/03/2011				
Transaction No.	Order Date	(Original) Date of Payment	(Revised) Date	Forward Rate
SO10030873	28/11/2010	31/03/2011	30/05/2011	4.9445

31/03/2011				
Transaction No.	Order Date	(Original) Date of Payment	(Revised) Date	Forward Rate
SO10030874	28/11/2010	31/03/2011	30/05/2011	4.9445

31/03/2011				
Transaction No.	Order Date	(Original) Date of Payment	(Revised) Date	Forward Rate
SO10031217	22/12/2010	28/02/2011	30/04/2011	4.9500

31/03/2011				
Transaction No.	Order Date	(Original) Date of Payment	(Revised) Date	Forward Rate
SO10031195	21/12/2010	28/02/2011	30/04/2011	4.9500

31/03/2011				
Transaction No.	Order Date	(Original) Date of Payment	(Revised) Date	Forward Rate
SO10030475	25/10/2010	28/02/2011	30/04/2011	4.9500
		30/04/2011	30/04/2011	4.9441
		03/07/2011	03/07/2011	4.9485



31/03/2011				
Transaction No.	Order Date	(Original) Date of Payment	(Revised) Date	Forward Rate
SO10031025	07/12/2010	07/12/2010	30/06/2011	4.9461
		15/02/2011	30/04/2011	4.9483
		30/04/2011	30/04/2011	4.9441
		30/07/2011	30/07/2011	4.9499

31/03/2011				
Transaction No.	Order Date	(Original) Date of Payment	(Revised) Date	Forward Rate
SO10030653	08/11/2010	30/04/2011	30/04/2011	4.9441
		31/07/2011	31/07/2011	4.9498

31/03/2011				
Transaction No.	Order Date	(Original) Date of Payment	(Revised) Date	Forward Rate
SO11033018	16/03/2011	30/04/2011	30/04/2011	4.9441

31/03/2011				
Transaction No.	Order Date	(Original) Date of Payment	(Revised) Date	Forward Rate
SO11033017	16/03/2011	30/04/2011	30/04/2011	4.9441

5. Fair Value Calculations

The fair value for 31/03/2010 is computed as the difference between multiples of expected payment and forward rate on agreement inception date, and multiples of expected payment and forward rate on the valuation date. Each of the obtained results (profit/loss) is discounted by risk free rate estimated for the corresponding period. For example, payment expected on 30/04/2011 (order number – SO11033018) represents fair value of (362) ILS before discounting. This value is discounted to 31/03/2011 by risk free rate matching this time period.

EUR/ILS exchange rate data:

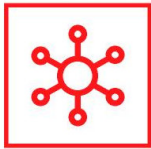
5.5069 – 06/05/2009

5.4968 – 29/09/2009

5.6437 – 07/12/2009

5.5644 – 11/12/2009

5.4603 – 17/12/2009



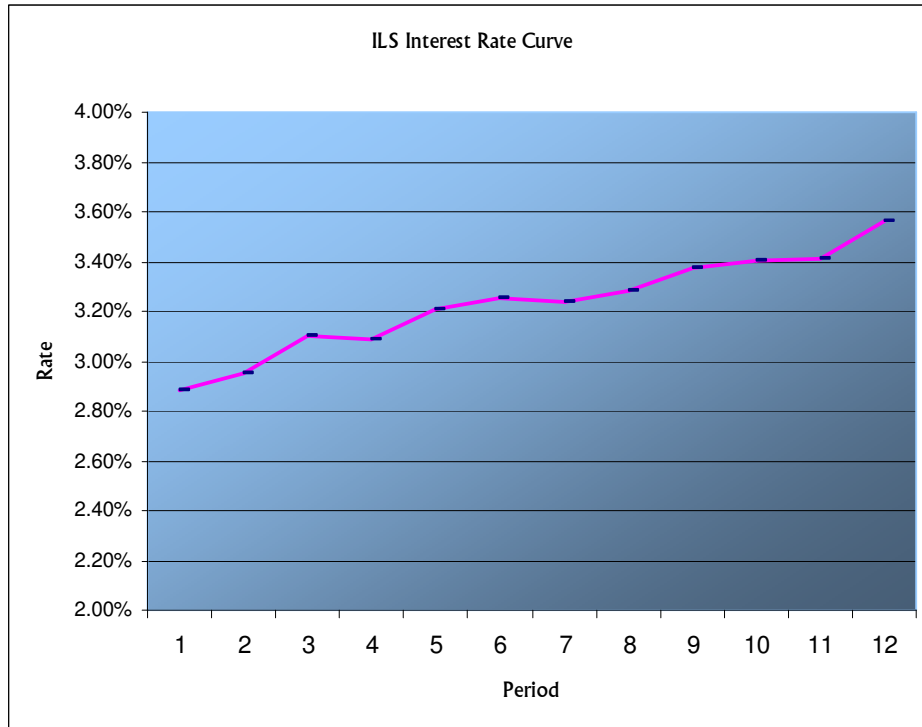
- 5.4274 – 23/12/2009
- 5.3439 – 13/01/2010
- 5.3050 – 15/01/2010
- 5.1542 – 04/02/2010
- 4.9991 – 24/03/2010
- 4.7132 – 16/05/2010
- 4.7564 – 31/05/2010
- 4.6363 – 10/06/2010
- 4.9471 – 28/07/2010
- 4.8735 – 12/08/2010
- 4.8749 – 19/09/2010
- 5.0606 – 24/10/2010
- 4.8745 – 28/11/2010
- 4.7147 – 22/12/2010
- 4.7342 – 21/12/2010
- 5.0465 – 25/10/2010
- 4.8392 – 07/12/2010
- 5.0291 – 08/11/2010
- 4.9630 – 16/03/2011

- 4.9495 – 31/03/2011



F. The following table and figure show the risk free rate curve we use to define discount rate in the implemented model.

		31/03/2011											
Month		1	2	3	4	5	6	7	8	9	10	11	12
Rate of Return		2.88%	2.95%	3.10%	3.09%	3.21%	3.25%	3.24%	3.28%	3.37%	3.40%	3.41%	3.56%





6. Findings

The table below presents the Fair Value as of 31/03/2011:

Transaction No.	Transaction Volume in EUR	Expected CF in ILS	Transaction Volume Balance in EUR as of 31/03/2011	Expected CF Balance as of 31/03/2011	CF Balance as of 31/03/2011	Fair Value as of 31/03/2011
SO9024592	€ 10,591,854	₪ 58,623,888	€ 2,224,289	₪ 12,420,772	₪ 11,004,199	-₪ 1,410,535
SO9024593	€ 4,497,003	₪ 24,859,185	€ 0	₪ 0	₪ 0	₪ 0
SO9026013	€ 1,440,190	₪ 7,845,629	€ 144,019	₪ 788,178	₪ 712,099	-₪ 75,725
SO9027063	€ 177,000	₪ 959,047	€ 0	₪ 0	₪ 0	₪ 0
SO9026912	€ 1,821,520	₪ 9,906,487	€ 519,880	₪ 2,827,302	₪ 2,570,743	-₪ 254,910
SO10027583	€ 137,458	₪ 709,135	€ 13,722	₪ 70,748	₪ 67,902	-₪ 2,840
SO10028957	€ 45,325	₪ 215,686	€ 9,065	₪ 43,196	₪ 44,871	₪ 1,671
SO10029075	€ 100,880	₪ 467,929	€ 40,352	₪ 187,285	₪ 199,520	₪ 12,155
SO10029738	€ 179,575	₪ 875,331	€ 15,933	₪ 77,796	₪ 78,774	₪ 976
SO10028772	€ 1,726,001	₪ 8,163,649	€ 678,132	₪ 3,208,611	₪ 3,354,830	₪ 145,563
SO10029601	€ 1,158,700	₪ 5,742,040	€ 289,675	₪ 1,435,664	₪ 1,432,835	-₪ 2,814
SO10030086	€ 139,421	₪ 679,766	€ 125,479	₪ 611,817	₪ 621,069	₪ 9,231
SO10030459	€ 48,000	₪ 242,121	€ 48,000	₪ 242,121	₪ 237,335	-₪ 4,749
SO10030873	€ 77,649	₪ 371,400	€ 38,825	₪ 189,127	₪ 191,967	₪ 2,827
SO10030874	€ 234,260	₪ 1,120,480	€ 117,130	₪ 570,578	₪ 579,147	₪ 8,529
SO10031217	€ 21,814	₪ 102,762	€ 21,814	₪ 102,762	₪ 107,979	₪ 5,205
SO10031195	€ 28,093	₪ 132,881	€ 28,093	₪ 132,881	₪ 139,062	₪ 6,166
SO10030475	€ 74,817	₪ 369,045	€ 22,446	₪ 113,045	₪ 111,052	-₪ 1,985
SO10031025	€ 41,453	₪ 200,295	€ 24,872	₪ 120,163	₪ 123,035	₪ 2,854
SO10030653	€ 33,000	₪ 165,712	€ 8,250	₪ 41,432	₪ 40,807	-₪ 621
SO11033018	€ 24,179	₪ 119,904	€ 24,179	₪ 119,904	₪ 119,542	-₪ 361
SO11033017	€ 32,626	₪ 161,793	€ 32,626	₪ 161,793	₪ 161,305	-₪ 487
	€ 22,630,818	₪ 122,034,163	€ 4,426,781	₪ 23,465,173	₪ 21,898,073	-₪ 1,559,851

The fair value is the liability in amount of (1,559,851) ILS.